密勒氏評論報

THE CHINA WEEKLY REVIEW

Formerly Millard's Review

中華郵政特准掛號立券之報紙

Registered at the Chinese Post Office as a Newspaper for transmission with special marks privileges in China.

VOLUME XXV — SHANGHAI, CHINA, SATURDAY, JUNE 30, 1923 — NUMBER 5

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Cable Address "REVIEWING SHANGHAI"

PUBLISHED AT NO. 4 AVENUE EDWARD VII, SHANGHAI CHINA, BY MILLARD PUBLISHING COMPANY, INCORPORATED BY THE LAWS OF THE STATE OF DELAWARE, UNITED STATES OF AMERICA.

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YEARLY SUBSCRIPTION, FIFTY-TWO ISSUES, TEN DOLLARS (CHINESE CURRENCY) IN ADVANCE, POSTAGE INCLUDED IN CHINA AND JAPAN. IN THE UNITED STATES AND FOREIGN COUNTRIES SEVEN DOLLARS AND FIFTY CENTS U. S. CURRENCY. REMITTANCE FROM OTHER COUNTRIES THAN CHINA AND THE U. S. CAN BE MADE BY INTERNATIONAL MONEY ORDER. ENTERED AS SECOND-CLASS MATTER IN THE CHINESE POST OFFICE AT SHANGHAI IN MAY 1917.

Contents

Editorial Paragraphs

American Opinion Regarding Conditions in China 133
British China Policy — Past and Present 135

Special Articles

After Chaos, What of China? .....Charles Dailey 137
Russia and the Foreign Powers .....John A. Cooke 138
Dr. Sun's Futile Fight and the Anarchy at Canton ..... Hin Wong 140
Agriculture in the Economic Life of the New China..... .....Julean Arnold 141
Ma Chang Invented in China Spreads All Over the World.. .....Supplement

Men and Events 148
Notes from Szechwan.....John Muir 150
The Week in the Far East..... 152
General News Summary 158

New Books and Publications

China in Disorder.....H. F. MacNair 164
What the Ships Carry between America and China 165
Outline for the Study of Current History, Finance and Commerce of China..... 166
The United States Court for China 167

COMMUNICATIONS PERTAINING TO SUBSCRIPTIONS OR ADVERTISING IN CHINA SHOULD BE ADDRESSED TO THE CHINA WEEKLY REVIEW AT 4 AVENUEEDWARD VII, SHANGHAI, CHINA. TELEPHONE CENTRAL 4741. CABLE ADDRESS "REVIEWING SHANGHAI."

AMERICAN OFFICE
WORLD WIDE NEWS ASSOCIATION
303 Fifth Avenue New York City
Telephone: Lexington 5300 :: Cable Ad.: Scholzem, N. Y.
Orders for advertisements and subscriptions in the United States may be placed through the New York Office.

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AMERICAN OPINION REGARDING CONDITIONS IN CHINA

THE American Chamber of Commerce of Shanghai and the Amercian Association of China on June 13, the day following the release of the American and other foreign captives from Paozuku where they had been held under most revolting conditions by Shantung bandits for nearly six weeks, sent to the Secretary of State of the United States a cablegram containing the following recommendations:

1—Suspension of all benefits accruing to China under the Washington Conference.

2—Disarmament and return to their homes of China's 1,200,000 surplus troops.

3—Chinese Government finances should be placed under foreign supervision.

4—Foreign Guards should be placed upon all lines of communication both land and water.

5—Foreign garrisons should be placed at strategic points throughout China.

6—All further remission of the Boxer Indemnity should be stopped.

7—Full cooperation with Great Britain in providing remedies for present conditions in China.

The American Chamber of Commerce of Peking on June 8 adopted a resolution which was also sent to the Secretary of State at Washington which read as follows:

1—That the land and naval forces of America, Great Britain, France and Japan in China be immediately increased in equal proportion with the object of protecting the railway, telegraph, and postal administrations and placing these services under the supervision of a commission of these four powers.

2—That no further loan of any kind be advanced to the present so-called government of China of which Li Yuan Hung is president.

3—That an international commission consisting of three members experienced in China, from America, Great Britain, France and Japan be immediately appointed to study existing conditions and make joint recommendations within three months after appointment to meet the present deplorable situation.

The American Chamber of Commerce representing American commercial interests at Hankow did not act separately but the members participated as individuals in a general mass meeting of all foreign residents when the following (summarized) resolution was passed:

1—We urge disbandment and disarmament of all superfluous Chinese troops, if necessary with support of armed foreign forces.

2—All main trunk line railways immediately be protected by a gendarmie officered by foreigners.

3—We urge foreign representatives in China to notify their home governments of the possibility—if not probability—of foreign armed intervention on an extensive scale being required in the near future.

Note: There were two other resolutions, one of which asked for foreign naval protection for foreign residents of Kuling and Kikungshan and another which referred directly to the Lincheng outrage urging foreign legations to negotiate direct with the bandits for the release of the captives to hold the Chinese authorities responsible for the outrage and to insist upon proper punishment.

THE adoption of these resolutions and their extensive circulation in the newspapers of the United States probably has done more to arouse the Chinese commercial interests as well as responsible Chinese everywhere to the serious situation now existing in China than anything that has happened recently. That these resolutions have received wide circulation and serious consideration in America is indicated by the press reports, and that they will have a considerable effect upon public opinion in the United States goes without saying. That they represent the sentiment, perhaps in some cases hastily expressed, but nevertheless the honest sentiment of a majority of the Americans engaged in commercial pursuits and also the opinion of a considerable group of those engaged in missionary and other professional work in China will not be seriously questioned. Therefore the question: What has caused this turning about in the minds of the American residents of China? Why have hundreds of thinking American citizens, many of them residents for many years in the Far East, completely changed their attitude toward China? And it should be remembered that this change has come in the short space of five or six years for there are on record letters written during 1917, 1918 and 1919 by the American Chamber of Commerce of China and other American organizations and addressed to organizations in the United States demanding the evacuation of Chinese territory by Japan and the establishment of the territorial, political and administrative integrity of the Republic of China. All through the World War the American residents of China stood firmly by China against the interests that were seeking the destruction of the republic and after the war this sentiment continued clear up to and through the Washington Conference. China's reverses at the Paris Peace Conference were felt keenly by every American in China and the fact that the Shantung Question was kept alive in the minds of the American people at home was due largely to the self-sacrificing efforts of thousands of Americans in the Far East who wrote numberless letters to their friends at home demanding that the American government intercede and rectify this and other wrongs to China. And then at the Washington Conference every gain made by China in the re-establishment of her national sovereignty brought joy not only to Americans in China, but to hundreds of their countrymen at home who were frankly sympathetic with China and against Japan and other interests which were working both openly and secretly against the welfare of the oriental republic. So again, what has brought about this change in sentiment among the Americans resident in China and also among a large section of their home people if we are to form an opinion from the editorial expressions in home newspapers?

THE answer is very simple: The Americans have lost "face" because the China for which they fought has proved to be an image of straw with feet of clay. And among the highly placed Americans who have lost "face" should be counted first of all President Harding who demanded justice for China when he was a member of the United States Senate and especially in his campaign speeches when he was a candidate for the presidency and again all through the Washington Conference when he went almost to the point of antagonizing other powerful nations because he believed in justice for China. Next among the influential Americans who have lost face because of China's failure is Secretary Hughes and the members of the American delegation to the Washington Conference, Elihu Root, Senator Oscar Underwood, and Senator Henry Cabot Lodge and their associates. These men believed in China and did everything possible by peaceful friendly methods to help China in the face of openly expressed skepticism on the part of representatives of other governments. What must be the feelings of these men, now? What must be the feelings of thousands of American citizens who freely contributed their money a couple of years ago to save China's millions from starvation, many thousands of these famine sufferers being from Shantung province adjacent to the Lincheng country where the recent bandit outrage took place. What must be the feelings of men like the Rockefellers, Sr. and Jr., who have given their millions to save China from her mediaeval condition of pestilence and disease, to have a near relative, a woman tourist, dragged from a train in the middle of the night and, at the point of a rifle, driven barefoot in her night clothes over rocky paths, jeered at, ridiculed and humiliated by these same Chinese people whom Mr. Rockefeller would save for a better life? What must be the feelings of thousands of American missionaries who have devoted their lives to the work of uplifting China, who live under adverse conditions amidst the dirt, squalor and disease of interior China, when they see their fellow brother missionaries carried off by bandits and their properties stolen or burned before their eyes? And then finally, what must be the feelings of the American business man who has invested his all in the development of a business in China, who has given his life to the work of developing industries in China, who has worked long and painstakingly in the training of Chinese in modern enlightened methods, who has brought prosperity and luxury to thousands of Chinese with small profit and more often great loss to himself? An answer to these questions provides the answer for the change in American public opinion toward China which is worrying so many intelligent Chinese who refuse to face the facts, but who try to see in this American change of heart a sinister propaganda on the part of other foreign interests in the background.

THE time for an accounting with the people who have been misruling China for the last dozen years has now arrived and when we refer to the men who have been misruling China we place no territorial limits to the condemnation. The man who preaches democracy while living under the protection of a friendly foreign flag in a foreign concession but who descends to the same low form of barbaric guerilla warfare with the rest of them when opportunity offers is just as guilty as the former bandit who rules three provinces. It's the whole system that is wrong and the time for strong action has arrived. China has got to be saved from complete anarchy or from military domination that would menace the lives of all foreigners living in this land first and next the whole civilized world. The Americans have no quarrel with the people of China. The Americans are disgusted and disheartened that the Chinese people have so little self respect that they have put up with the extortions and rotten government of their

officials for so long a period. Here is a paragraph from the annual report of the American Chamber of Commerce of Shanghai to be made public at the annual meeting, which we believe expresses the real sentiments of American business men:

"Both in this report and in various resolutions passed during the year which have been widely disseminated in the United States, we have made strong statements of criticism regarding conditions in China. Although scarcely necessary, it might be well to mention again that these criticisms are not directed at the Chinese people, but purely at those reactionary official and military interests which have brought the country to its present deplorable state. The Chinese people are naturally peaceful and easily lead when their minds are directed toward peaceful, constructive channels. We want the real leaders of the people to know that Americans residing in the Far East are sympathetic with them in their ideals for liberty and justice and stand ready to assist them to the best of our ability in their legitimate desires. We want to see China develop into a strong, democratic nation, in which the people will have absolute control of the destinies of their own country, as we have developed our own political institutions in the United States. America has no agressive designs whatever; the entire history of our relations with the Orient, going back over a period of nearly two centuries, will bear out this fact. Wherever we have touched the Orient we have tried to help. This is shown in our relations with Japan and China, and most especially in the Philippines, where we, largely through accident have actually had control of Oriental territory. We want to see China strong, so that she can protect and guarantee justice not only to foreigners but most especially to her own citizens."

IT is not our purpose or ability to suggest a panacea for the situation now existing in China; but it is our purpose to call the attention of the intelligent classes of Chinese to the perilous situation that now exists and most especially to call the attention of Americans, private citizens as well as officials, both in China and at home to the crisis that has developed out here in the Orient which is affecting the destinies of a large percentage of the world's population and through them the peace of the whole world. The preoccupation of European nations in affairs at home bars them from an active and forceful participation in the solution of China's troubles. Japan is still under suspicion for her actions in the past which will require many years of fair dealing and absolute change of policy to eradicate. America is in a position to lend active assistance and at once. Her actions, while not always intelligently directed, have generally been above the suspicion of selfish imperialistic aggrandizement. America can come into China now with clean hands and take the lead in helping to solve China's problems. Whether it is intelligent moral support, actual military force or financial assistance, America is in a position to take the helm and intelligent Chinese should now come forward and cooperate with the Americans in an invitation to the United States to take its proper position of leadership. The United States took the leadership at the Washington Conference and the Washington Conference, although making some mistakes, did perform a great service in providing the machinery for cooperative action in situations such as now exist in China. The average American at home has assumed the attitude that the Washington Conference settled everything in the Pacific, when as a matter of fact it was only the beginning of a solution. It translated into actual living and permanent form certain declarations of policy such as that expressed in the Open Door policy of John Hay and in countless other ways since America's first contact with the Far East. Americans residing in the Far East now have an opportunity for distinct service to their own home land as well as to the land of their present residence. The problem is to arouse the American people to a realization of the peril that exists in Asia and in this work those Chinese who have a real interest in the future welfare of their country also have an opportunity for service. But they must act before it is too late!

BRITISH CHINA POLICY-PAST AND PRESENT

ENGLISHMEN in China and many Americans will have noted with cordial albeit reluctant approval, we believe, the pungent comment on the state of affairs in this country made by the Hon. A. O. Lang on the occasion of the opening recently of the magnificent new building of the Hongkong and Shanghai Banking Corporation. Mr. Lang, who is Chairman of the Court of Directors of the Head Office of that corporation, may be considered to have spoken the sentiment of a majority of the leaders of British commerce and finance in China. He is not the first representative of a distinguished British corporation to call the attention of the outside world to the present deplorable conditions of affairs nor can he be considered to be an alarmist or agitator—British and American commerical and financial leaders are not noted for these traits. Mr. Lang said in part:-

"Though conditions look dark, let us remember that the darkest moment comes before the dawn, and support ourselves with the hope, not only that China has now filled the cup of her folly to the brim, but that the foreign Powers have awakened at last from their dream of a self-regenerated China. The doctrine that China must work out her own salvation has been tried and found wanting; it is not only derided by most intelligent Chinese, but has been abandoned by nearly all thinking foreigners.

"We have very reluctantly come to the conclusion that the time has come to give foreign interference a trial, not in any aggressive spirit, but with the firm and friendly determination to save the country from the chaotic condition to which military misgovernment and political demoralization have brought it, and to secure again for foreign trade and residents the protection and immunity to which they are entitled by treaty.

"Our Governments are indeed faced with a grave responsibility, and the immense interests at stake demand that they must see their task through; but I am persuaded that firm insistence by them of essential reforms, backed, if absolutely necessary, by an unequivocal demonstration of force will not only speedily react in the restoration of order and security, but will be welcomed by the masses of China who are suffering no less than ourselves from the long-continued misgovernment and lawlessness of their country.

"I repeat my conviction that these deplorable conditions can be remedied by the powers whose commercial interests are so deeply concerned in the rehabilitation of China."

WHEN men at the head of institutions such as the Hongkong and Shanghai Banking Corporation, and Jardine, Matheson and Company speak as they have within the past few weeks it is time for even the unregenerate officials of Peking and other parts of China to pay respectful attention; and foreigners from Orient and Occident may feel a renewed hope that something will be done. The student of China's nineteenth century international relations will note in Mr. Lang's remarks an echo of Lord Palmerston's, Sir Rutherford Alcock's, and Sir Harry Parkes' sturdy tones. It has become the fashion in recent years rather to frown upon or pass over lightly the works of these outstanding exponents of Britain's policy in the Far East. But Americans as well as Britons may with profit study the 19th century background of China's 20th century domestic problems and foreign relations. Following the murder of Charles Coltman in the presence of an American Consular official and prior

to the settlement of the claims arising therefrom the old cry of "gunboat diplomacy" was raised. Palmerston, Alcock, and Parkes are nowadays slightingly accused of using this type of diplomacy—in reference to this, however, Americans will remember with pride Commodore Tatnall's gallant action in visiting and aiding Admiral Hope in the action at the Taku Forts on June 25th, 1859, and his famous ejaculation "Blood is thicker than water."

LEST this reference to the so-called "gunboat diplomacy" be misinterpreted we hasten to add that few or none at the present time would advocate the adoption of a policy of aggression in China. The opinion of the world loudly expressed after the Paris Peace Conference in reference to Shantung, followed by the restoration of Japan's portion of that province after the agreements reached at the Washington Conference show beyond peradventure that the Powers are not motivated by a desire to "carve the Chinese melon" at least in the old imperialistic sense. This it seems clear a majority of China's politicians and militarists have come to realize with a result which to many at least is unexpected and to all unsatisfactory. And yet—to refer again to China's nineteenth century problems—this should not be a source of astonishment for, underlying almost every problem which has arisen between China and foreign nations, including Japan, has been the innate feeling on the part of the Chinese of their superiority to anything outside the Middle Kingdom accompanied by an assurance of their ability to swallow and absorb *anything* foreign be it a dynasty, goods, or ideas, and yet remain unchanged. This, of course, does not apply to all Chinese—anyone can point out individuals who are exceptions—but they are the exceptions which prove the rule. Westerners in China as well as at home, and Chinese long resident in foreign lands have often believed that Republican China is vastly different from Imperial China. Many have affected to believe, and others really do believe, that it was the Manchu who was prejudiced, biased, and anti-foreign in the nineteenth century.

NO one who studies in even a casual manner can maintain that the Western Powers, notably England, France, and Russia have always been just in their dealings with this country or that they never made a misuse of force. On the other hand the most superficial survey of the attitude of the provincial officials and the rulers in Peking from the time of Lord Napier to the present cannot fail to show that China was brought into the family of nations in a manner which might not incorrectly be described in physiological terms. She arrived with wails, struggles, and bloodshed. And yet ask any thoughtful Chinese whether China has profited from foreign intercourse and he will unhesitatingly answer that despite concomitant troubles the foreigner has contributed greatly to the development of both country and people. Nevertheless ancient mental characteristics are not to be changed in a moment; the overthrow of the Manchus and the bringing in of a pseudo-republic have not eradicated the old policy of proud conservatism and obstruction which time and again have called foreign protection of treaty rights of foreign nationals. It is devoutly to be hoped that such may be the case at present.

IN times past the protests of foreign merchants to their home governments have occasionally gone unheeded. It may be that those of the American and British Chambers of Commerce and of men like Mr. Lang will again pass unnoticed. But this is certainly not to be expected. Never have the interests of foreign nations been so great in China as at present, and that the protests of those who know conditions here from personal experience will be lightly passed over we cannot believe. Officials who may still adhere to the old doctrine of procrastination and of fomenting jealousy among the Powers or who misjudge the strength of these Powers because they have not strained the quality of mercy will do well to read again the principles enunciated by Lord Palmerston and Sir Rutherford Alcock in the fourth and fifth decades of the nineteenth century. The former wrote in December 1846 for the benefit of British Consuls in China: "I have only to say that, wherever British subjects are placed in danger, in a situation which is accessible to a British ship of war, thither a British ship of war ought to be and will be ordered, not only to go, but to remain as long as its presence may be required for the protection of British interests." A month later the British Foreign Minister wrote: "We shall lose all the vantage ground we have gained by our victories in China if we take a low tone. We must take especial care not to descend from the relative position which we have acquired. If we maintain that position morally by the tone of our intercourse, we shall not be obliged to recover it by forcible acts; but if we permit the Chinese, either at Canton or elsewhere, to resume, as they will no doubt always be endeavouring to do, their former tone of affected superiority, we shall very soon be compelled to come to blows with them again. Of course we ought—and by we I mean all the English in China—to abstain from giving the Chinese any ground of complaint, and much more from anything like provocation or affront; but we must stop on the very threshold any attempt on their part to treat us otherwise than as their equals, and we must make them all clearly understand, though in the civilest terms, that our treaty rights must be respected. The Chinese must learn and be convinced, that if they attack our people and our factories, they will be shot; and that if they ill-treat innocent Englishmen, who are quietly exercising their treaty right of walking about the streets of Canton they will be punished. Depend upon it that the best way of keeping any men quiet, is to let them see that you are able and determined to repel force by force; and the Chinese are not in the least different, in this respect from the rest of mankind." Sir Rutherford Alcock in a confidential despatch to Sir George Bonham, dated June 17, 1852, wrote in a similar manner: "In dealing with the Chinese, however, nothing appears to be so necessary as to keep the ground once assumed. If this be true there cannot be too much caution used in first asserting or contending for a right; but that step once taken, there is no safe halting-place between it and full success. A course of alternate opposition and submission cannot do otherwise than end in defeat; and defeat in this country is never limited to its immediate consequences." The incidents which resulted in the laying down of the policy here enunciated were not altogether different from those which have been occurring for several years past and which are still occurring in China at the present day. The need for a definite, and just, and firm policy on the part of the Powers was never greater than at present.

After Chaos, What of China?

BY CHARLES DAILEY

EVERYBODY in a political way in China is looking for a place to light, just like the air pilot who crashed with seven passengers just inside Chienmen the other day. Finding no safe field anywhere they keep circling over the capital burning gas at a rate that is costing the Finance Minister as much as the percent monthly interest to borrow the money and with the prospect of the rate going higher as an ever and ever lower grade of banker takes the risk. No one knows what is going to happen in the next hour. News despatches written on developments in the morning are out of date before they get past the political censor in the telegraph office. Most of the correspondents have ceased to try to tell the story by wire; none of them tries to write anything for the post. For all any of them know the ship bearing a letter is likely to be saluted on the way by a westbound ship carrying troops, a commission or whatever it may be found necessary to protect foreign interests in China.

Things could not be worse, most people say, but there is no telling. Anything can happen in China these days. Every doctor of political dope says matters will get worse before they get better. How much worse is the only question left open to argument. This Lincheng business is only an incident. The settlement the so-called government of China had to make with the bandits to procure the release of the foreign captives has encouraged brigandage in many other sections of Shantung. Everybody who has a grievance or who wants to get into the army rounds up a few comrades and sets out to capture a missionary or to drive a Standard Oil agent out of his bailiwick so that his stock may be looted and sold. Everywhere except on four railways heavily guarded by troops travel is unsafe and the Lincheng outrage shows how dangerous even the best lines of travel have become.

The meteoric flight of President Li Yuan-Hung was but an incident. It was bound to have occurred sooner or later and everyone is surprised that it did not happen before Paotzuku became known outside the hsien in which it is located. He was literally dragged from under a bed in his home in the British Concession of Tientsin a year ago to be put in the Presidential chair. From that moment a gang of merciless and unscrupulous politicians began to plot his undoing, and the wealthy, easy-going boss of the Chihli party, Tsao Kun, was groomed for the office of President. Tsao Kun, although a militarist, is not so bad a man as he is painted, albeit he has amassed considerable wealth since his rise through the army to the post of Inspector-General for Chihli, Honan and Shantung provinces. As such he yields great influence, what with close to a million troops who until recently at least would rally to his call. Tsao Jui is, head of the Tientsin clique, the one that pulled Li Yuan-Hung from his perch because he refused to do its bidding, Tsao Jui is as unscrupulous as may be found in China. He has amassed wealth far exceeding that of his brother. He had found the indolent, dough-like brother of Paotungfu quite pliable in his hands and has used him to the utmost.

It is Tsao Jui rather than the supertuchun of Paoting who is behind the move to land Tsao Kun in the presidential chair whether or no. It was because Li Yuan-Hung refused to do the full bidding of Tsao Jui and his corrupt followers that Li was driven out of Peking in June at the point of bayonets held by Generals Feng Yu-Hsiang and Wang Hwei-Ching, the two whose armies protect Peking.

Li Yuan-Hung is an honest man as honesty goes in China. He tries to give a square deal. But Tsao Jui does not care for square deals. The only thing straight about Tsao Jui is the path that leads from his graft-pit to the bank. In all else he is as devious as Chinese politics. Li Yuan-Hung is the Ulysses S. Grant of China—a good soldier and an honest man boosted into the Presidency on his military record but only to find himself surrounded by a corrupt cabinet and more crooked bureau chiefs, all carefully hand-picked by Tsao Jui and his Tientsin clique, who had no difficulty whatever in obtaining the sanction of Tsao Kun.

Matters in China began to go from bad to worse under Li Yuan-Hung, a natural development of the non government that has existed ever since the establishment of the so-called republic. Long before the Washington Conference China was on the skids, coddled by the United States, cudgeled by Japan, and with Great Britain and France benevolent only so far as their own vested interests in the Middle Flowery Kingdom were not in the least endangered. A debauch of corruption and squandering of the money of 400,000,000 of people was extended under the all-too-liberal and rashly made promises of the Washington Conference into an orgy of public theft, a riot of waste and a deluge of default of obligations, both foreign and domestic.

The thirst for the drunkenness of riches of Tsao Jui and the Tientsin clique and the subsidence of Wu Pei-Fu as a champion of the people after his victory over Chang Tso-Lin grew into a deluge. Graft became common and bribery the order of the day. Let a man expose or oppose any crooked deal and he either was thrown into jail or out of office. Cabinet after cabinet was formed and wrecked because it refused to do the bidding of the bosses. Some cabinet ministers amassed a fortune before they were compelled to yield office to others, while others were thrown out before they had recouped the purchase price.

Even Parliament, summoned by Li Yuan-Hung as his first official act and commanded to do its work of completing the constitution, became inoculated with the graft virus and demanded pay either to attend the sessions or to remain away, and some collected from both sides. The blowup was near when the bandits wrecked the Blue Express near Lincheng.

Parliament is hardly worth a mention. Diogenes would prove the Standard Oil Company's best customer should he start a search among them. There is a total membership of 840 in the two houses, and 504 are required on a joint ballot to elect a President. According to popular count about 400 are controlled body and soul by Tsao Kun. There are about 150 irreconcilables, chiefly from the southern provinces, from Chekiang and from Manchuria. About 200 are doubtful quantities. Some of these are openly taking money from both sides, but others are on the auction block to the highest bidder and with bids increasing day by day. The corruption is so notorious that the normal smells of Peking are no longer noticed by the retired bootleggers and other tourists who come this way.

For months it has been reported that the Parliament had been bought in the interest of Tsao Kun, but if he actually has a majority of votes the election probably would have been over long since. When Li Yuan Hung was bayonetted out of office and held under arrest by bayonets in Tientsin station until he was forced to write his resignation and a telegram to his favorite concubine to deliver the seals of office an effort was made by the Tientsin clique to railroad Tsao Kun into the Presidency. It failed because of the lack of votes. The meek and mild-mannered Tsao Kun caused it to be announced that he opposed taking the office by force, since it amounted to becoming a dictator, and he was quoted as saying that Parliament first should determine the date of expiry of the Presidential tenure and then provide for an election. But the real reason was the lack of votes.

Then it was that the petty bribery began. The Tsao family announced that as an inducement to get the constitution completed the Paotingfu boss would pay from his publicly-wrung private purse $10 to each member of Parliament for attendance at the sessions. Many collected the ten dollars at the assembling hour of noon and then bolted for the teahouses. Still others collected money from the other factions for remaining away. As long as the money comes along in this easy manner there will be no completion of the constitution or the election of a President.

Even the friends of Li Yuan-Hung have gotten into the bribery game. Li has many new friends these days, for in an effort to wreck the Chihli party all the other factions in China have united against it. Li remains in Sanctuary, as the British Concession in Tientsin is known, and here the emissaries of the enemies of the Chihli party meet and plot, just as do the Tientsin clique in the native city of Tientsin, only a mile or so distant. Room 50 in one of the hotels in Peking is notorious as the temporary abode of a representative of Li Yuan-Hung's followers. There arrived the other day the sum of $50,000 for judicious use among the Parliamentarians. This man called in two friends. They made four piles. Three piles contained $10,000 each and one $20,000. The latter pile went to Parliament. There is graft even in the Legation Quarter and fortunes are being made every day. The Parliamentarians are pikers compared with the political engineers of the different factions.

Of one thing the members of Parliament, the treasury raiders and the other official corruptionists feel certain. There will be no foreign intervention. They openly say the United States has coddled China too long to make a frowning face now. The ridiculous settlement made in the Coltman case and the paring down of the claims filed by the victims of the Lincheng outrage are pointed to as evidences of this. As for Europe, it has neither the troops nor the inclination to mess about in China with the Ruhr and the Near East and the Balkan hot potatoes in its hand. Japan, feeling the boycott severely and admitting it, dares not act alone and probably is restrained by the other Powers. China knows this and drifts along without a President and without a legal Cabinet. The political Neros fiddle on, louder than ever.

Yet there is a cloud gathering on the horizon. It is a small cloud, but it is not nebulous. The Chinese is an individualist, conforming through the centuries to the teachings of Confucius. There is an utter lack of national spirit in China. But when a Chinese finds that his purse is being hit he begins to grumble, and when his neighbor mentions a similar condition they growl. They are growling now. When the growl gets loud enough it will turn into a roar. Then Parliament will try to become busy, then the Tuchuns with their swollen and unpaid armies will begin to take notice and prepare to resist the tide.

Already the Chambers of Commerce are beginning to take notice of the loss of trade and the bankers of the defaults not only of principal but of interest. They are counselling together in many of the large cities. Virtually nothing of it is getting into the public prints. But as the cloud begins to take form and ascend higher in the heavens it will be found that the guilds and gentry of the provinces each will have elected a delegate. These delegates will choose a delegate to represent the province. Then the delegates from the provinces will come to Peking, or to Shanghai or Nanking, and will set up some sort of a commission. Out of this commission will come a chairman, with an advisory committee or a cabinet. It may be months in the final evolution, but the leaven is at work. The masses paying little attention at the moment, but presently, unless the Political Parasites of Peking awaken, they will find these delegates collecting and administering the revenues of the provinces, remitting the proper share to Peking and leaving nothing, for the militarists and the get-rich-quick gang that haunts the capital. Wise tuchuns will do well to scan the heavens. As for the foreigners—well, they are nearly all in the treaty ports now, or else have come in to the railways leading to one in a few hours. They see the signs of storm even if the diplomats and their benighted countries oversea do not.

Peking, June 25, 1923.

American Canned Goods Abroad

The acquaintance which the foreign world made with American canned foodstuffs during the war has developed a permanent post-war demand for this product of our industries. Figures compiled by the *Trade Record* of The National City Bank of New York show that the exports of canned foodstuffs in the post-war years average five times as much in value as in the years preceding the war and that the canned foods exported from the United States since the beginning of the war aggregate a billion dollars in value. Prior to the war the exports of canned goods aggregated about 15 million dollars a year: now they are running at about 75 millions a year.

This permanent evidence of a big export trade in this line, says the *Trade Record*, is the result of a century of experimental work by the food and agricultural experts of the country. It was in 1820 that the first serious attempts were made in the United States in this line by the establishment in Boston of a factory for the "preservation of perishable foods in hermetically sealed cans" and a century later the census of the country showed an outturn of 628 million dollars value of the canning and preserving industry against 50 million dollars in 1889, the first year in which the industry was included in census records.

That the financial and business interests of the country recognized the value of this new industry is apparent from the fact that the capital invested in the canning and preserving industry is officially reported at 21 million dollars in the census of 1890 and 378 millions in the census of 1920. The sums paid for the materials used in the canning and preserving establishments advanced from 30 million dollars in 1889 to 412 million dollars in 1919.

Even these enormous totals do not include the meats and soups canned by the great meat packing establishments or the condensed and evaporated milk which have become such an important factor in both the domestic and export trade, though the value of the canned goods exported does include all canned meats, and condensed and evaporated milk.

All the world asks for our canned goods. They go to every country and continent, but the growth has been most striking in the countries which made their acquaintance during the war.

California, New York and Maryland are, in the order named, the biggest producers of canned goods, but the industry now extends to practically every state.

Russia and the Foreign Powers

BY JOHN A. COOK

FAR be it that any sinister idea should ever crop up to dispel the Secretary of State's—Mr. Hughes'—dominant thought, as expressed by him in Washington on March 21, to the representatives of the Women's Committee of Russia, viz-"to find a ground for helpfulness, recuperation and restoration of peace in Russia." The world to-day is paved with countless such aspirations and America, like all those other countries who spilt blood on the battlefields of Europe to secure this very peace, is undoubtedly exhibiting great concern in this matter. The question is not so much one of finding a ground for this as it is of being sufficiently clear-sighted politically to be able to recognize, discriminate and value what already exists as a basis to work upon in Russia and what will continue to exist in Russia in spite of all Mr. Hughes' reputations and those of other countries. Mr. Hughes' policy of waiting for conditions to change in Russia so as to render it possible for America to cooperate with her resembles very much the Biblical story of the coming of the bridegroom. The policy of waiting often brings good results, but, on the other hand, it more often unfortunately brings the very opposite. Only sound far-sighted diplomacy knows exactly when to avail itself of time and not allow opportunities to over-ripen and slip away never to return. Is Mr. Hughes convinced and can he convince the people of America that the bridegroom has not already passed? Evidently, there are people in America who *are* so convinced. If a retrospect be made of all the aid America has afforded to the people of Russia, which is analogous to supporting the Soviet government, and if the object of this aid be put in the balance together with opportunity on the other side of the scale, then the people of America, as a whole, can only regret that many of the best opportunities that history has ever served for the purpose of bringing about the long-sought for peace, regarding which Mr. Hughes is clamoring, have been allowed to slip away into eternity, no fault, of course, of the people of America.

The Slav peoples, the Russian in particular, have a strange knack of accomplishing things in a manner not altogether suited to the likings of the non-Slav countries including America and history is full of events that have ruthlessly disappointed the aspirations and expectations of non-Slav countries. It took France many a year to survive her grief over the failure of the Polish revolution in 1831. It was France who made the mistake of not knowing the psychology of the Polish Slav. England and the other superior powers spent five years deliberating before they could make up their minds to recognize Servia after the revolting and startling regicide of Queen Draga in 1902 by the Servian military clique, but ultimately this recognition was more a matter of necessity on the part of these superior powers than it was to Servia as the recent war has proved and this procedure is exactly what is destined to happen in connection with Russia and the powers that are refusing her recognition to-day.

The psychology of the Russian Slav is very simple, namely-he possesses an unlimited degree of confidence in others until this confidence is abused when he ceases to trust in others and becomes suspicious and consequently distrusted by his enemies, and sometimes friends. In reality, who can say that the European Entente powers have not abused the confidence of the Russian Slav during the past quarter of a century. He was dragged into fighting the Japanese to retain the equilibrium of the balance of power in both Europe and the Far East. He was drawn into the great war without properly knowing or understanding the reasons and when the Russian revolutionary party at length grasped the reins of power which had been so ruthlessly cast aside by these very Entente powers in their endeavor to subdue the Russian Slav, and threw down their arms determined to fight in future for Russia only and not for others, he was immediately branded as a traitor and has continued to remain such in the eyes of his enemies simply because the new leaders of Russia are determined to keep Russia aloof from all future complications that will embroil her in future wars. The treatment of Russia by the Entente powers before the war, during the war and more especially since the war does not reflect any sincere attempt on their part to obtain that peace which figures as the figure head of all diplomatic negotiations. The fruits of Lausanne, Genoa, etc., to say nothing of the recent English Note, have only placed Russia and her rulers in a more inaccessible position than previously, so if it really be true that the constant and dominant thought of America and the other members of the Entente is to help the people of Russia, it can only be said

then that these countries either do not see or wish to admit that there exists a basis in Russia for cooperation that most naturally must lead to peace. If Russia's hope lies in Russia's action and America wishes to help the Russian people without this aid appearing as interference in Russian affairs, then it follows (Shakespere says the muddy fountain soon clears itself) that the only thing to do is to trade with Russia and thus furnish the propelling motive to purify the country, for it is only by constant contact through trade that the foreign governments and the Soviet rulers can ever hope to lay the basis for a common understanding regarding the conflicting interests to which Secretary Hughes and others constantly refer and object. The people of Russia can be assisted only by providing work for them and this work can more readily be achieved by capital being furnished by those countries really interested in the Russian people. Mr. Hughes' assertion with reference to Russia's trade, i. e. that it is impossible to support what does not exist, is fatuous for it cannot be denied that this trade exists and is actually being stimulated *without* political arrangements or even the assistance of foreign capital. The whole question is one of creating a speedy regeneration of Russia's economic condition and this can be accomplished easier and the objects will be more everlasting through the medium of foreign capital coming to the aid of the already existing economic groundwork of Russia and helping to repair the industrial structure of the country. This is the only way to be of any practical use in aiding the Russian people and both famine and unemployment can be held in check better by these means than by any other. Any attempt to assist the Russian people through charitable or other similar means is only capital wasted and removes the ideal and object of those countries concerned in Russia's regeneration farther away from the goal.

Mr. Hughes' insinuation that those foreigners at present in Russia engaged in business are adventurers and exploiters, to day the least of it, is far from being either just or true. On the contrary, it can be said that these very foreigners are far-sighted individuals and understand Russia and the Russians infininitely better than all the foreign offices and state departments put together. There will be no chance of these very foreigners making such errors as did their governments in 1917 when they used the public money to bolster up a mushroom Russian government under such an adventurer as Kerensky. Whose fault is it that Kerensky and his government were overthrown?. Whose fault is it generally that the favorite horse that has all the backing does not come in to the winning post? The very fact that the Kerensky government was overthrown is proof that the governments that backed it knew nothing of the Russian Slav and his political life. If America claims to know so much about Russia to-day the sooner she agrees to write off the Kerensky loan of $187,000.000 as a bad debt and forget about it the better it will be for the American people in the long run. What would the Americans have done at the time of their revolution had England and France furnished a loan to some adventurer to overthrow them? There are many ways to obtain this money from Russia, but the present system adopted by America and her confederates with respect to Soviet Russia, can only result in repelling her from agreement and increase her repudiation of these and other war debts. To demand or force Russia to pay the Kerensky war debts would be an outrage to humanity and would ever remain a stigma to modern civilization for it is equivalent to sending an emancipated slave back to slavery or making a dead man pay for the gun and bullet that shot him. America of all the civilized countries in the world should hasten to recognize the error she made in supporting Kerensky and drop the whole affair for the Soviet government is here in Russia to stay and neither its leaders nor the people of Russia will ever thank the Allies or America for their monetary offices in supporting a man whose very policy, if it ever had had the ghost of a chance of success, would have robbed the Russians of the fruits of their revolution. After all, Russia has not yet fully emerged from her state of internal civil revolution and this is due exclusively to the actions of the foreign powers in their attempts to overthrow the Soviet power so that under such circumstances it is impossible to expect complete stability or even ability or desire to discharge international obligations. It is scarcely justice to expect this. Every new attempt launched by the foreign powers against Russia only tends to strengthen her internally and the results of her diplomacy at Lausanne, Genoa, etc. show how far she is a potent factor in foreign affairs.

The changes in laws and methods to which Mr. Hughes refers as being evident in Russia are just the adjustments of practice and theory and credit must be given the Soviet government for these and other changes and the acknowledgement of their necessity. The question, however, as to whether Soviet Russia will ever go so far as to change the fundamental laws governing her economic policy to suit foreign capitalistic countries remains yet to be seen and this is doubtless the whole main-spring upon which the foreign policy of Russia's enemies pivots. It is condensed down to a few words, viz-"will capitalistic Europe succeed in breaking proletarism of Russia or will Russia succeed in breaking the capitalism of Europe?. Presuming that for the sake of humanity in general the dictatorship of the proletariat must be destroyed, the Allied governments and others are not adopting sane methods to accomplish this. On the other hand, if the dictatorship of the proletariat is to be the essential factor for the future benefit of humanity; then the actions of the foreign countries with respect to Russia and her policy are only assisting and fostering the accomplishment of Russia's scheme in converting the proletariat of the world over to advanced socialism. The sooner America and other countries recognize this the better. If the foreign countries are afraid of this and if this fear of theirs is the sole reason for their withholding their recognition of the Soviet government and there is every indication that it is so, then this very fear will prove their ruin, for, as the poet says:— "He either fears not or his deserts are small."

"Who dares not put it to the test and lose or win it all." Revolution is a part of human nature and it is incessantly in progress and what is more there is no power on earth to stop it for civilization to-day is the product of the revolution of the revolution of centuries. The means adopted to accomplish this revolution evidently appear to displease foreign countries, but it must not be forgotten that these very self same foreign countries adopted the Christian propaganda among negroes, Chinese, Japanese, Indians and others in order to win their day, so if Soviet Russia has struck out on a new path to redeem the world she is only following in the footsteps of her predecessors and who can say whether Christianity as it is followed in so-called civilized countries has proved the blessing to the working classes that it is advertised to represent. If the world has drifted away from the essential principles of good Christianity and apparently there are grounds to believe it has and, should the world be open to the conversion of a new faith that will ameliorate the conditions of the majority of its population, what should there be to fear it?. It is the guilty who fear, so let those foreign countries face the utterances of Zinoviev, Troitsky and others as the hand-writings on the wall. Any good doctrine will bring its own rewards and a bad doctrine will receive its just treatment. It is fatuous to imagine that western civilization is unable to discriminate between good and evil. If it cannot then Mr. Hughes' actions are perfectly comprehensible, but, on the contrary, if it can, the wonder is that such an enlightened country and people as America and Americans continue to swallow the medicine of the State Department.

Russia does not stand in need of either sympathy or charity from either America or any other country nor does she now even consider recognition so essential for she has long since started to work out her own salvation and if only the foreign countries will leave her alone to effect this the result will not altogether be so pleasant to those very countries who to-day are clamoring about Russian fallacies, futilities, speculation, propaganda, etc. Stability is being welded to-day in Russia with an iron hand that in the long run will prove a more effective means for recognition than all the whims and caprices of foreign countries. In conclusion, it can be said that a better understanding of the Russian Slav is necessary and if capital wishes to enter Russia for the benefit of the Russian people let it come stripped entirely of its political garb and the sooner the better lest it be too late.

Chita, Siberia, June 20, 1923.

Immigration Law Excludes "Siamese Sapphire"

Miss Margareta Storm, fourteen year old white girl, who is known as "the little Siamese Sapphire" has been barred from the United States, due to the fact she was born on Malayan Peninsula, and recently re-booked passage from New York, the entry in her case being made "born in the barred zone; excluded, ordered deported."

Miss Storm had planned to go to Charles, Minn., where she was to have been adopted by her uncle, Reinhold Storm, a minister, according to the *N. Y. Herald*. Her father was a German jeweler, who was roaming the world in search of precious stones when he married a native of Indo-Chinese land, who died when Margareta was five years old. Mr. Storm finally settled with his young daughter in Argentina, where his child was placed in a seminary, while her father continued at sea.

She recently arrived in New York where she was detained at Ellis Island, when it was found she was a native of the barred zone. "The United States arbitrarily excludes from its shores all persons coming from this area, so Margareta had to go back, despite her plea that she was the child of a German subject and a white man."

Dr. Sun's Futile Fight and the Anarchy at Canton

BY HIN WONG

THE prospect for an early and genuine peace in Kwangtung is exceedingly dim. Before Dr. Sun Yat-sen, the foremost advocate of the Constitutionalist Movement in China, was able to reorganize his strength and introduce a republican form of government in Kwangtung, mutiny and disaffection among his followers began to develop almost immediately after the Kuomintang party's return to power in Kwangtung province. Unless his followers soon bury their hatchets, Kwangtung will degenerate into another Szechuen, a province of many factions and consequently no government.

The present struggle in Kwangtung has ceased to be a war of Constitutionalists for the preservation of the Republic and its Constitution and the restoration of a free representative assembly in Peking. It has degenerated into a factional and fratricidal guerrilla warfare in which intrigue and treachery as well as arms and ammunitions are being employed to obtain advantages for the many minor leaders. The political parties represented in the present muddle are the Kuomintang and the Cheng-hsueh-hui. The Kuomintang is divided into the Sun Yat-sen and the Chen Chiung-ming elements. The Sun Yat-sen element is in turn subdivided into several minor factions. In a military way Dr. Sun has the support of at least five army units, including the divisions under General Yang Hsi-min, commander-in-chief of the Yunnanese Army now in Canton; General Wei Pong-ping, commander-in-chief of the Cantonese Army in the West River Districts of Canton Delta; General Hsu Chung-chi, commander-in-chief of the Cantonese Army formerly occupying South Fukien; General Li Lieh-chun, of the Kiangsi Army now stationed in South Fukien; and General Liu Chen-huan with a part of the Kwangsi Army loyal to Dr. Sun. The Cheng-hsueh-hui Political Party now has two factional commanders in the field, General Shen Hung-ying and General Li Yao-han. General Shen, commanding a mercenary army of Kwangsi-ites, returned to Canton on January 15 as a supporter of Dr. Sun but later attempted to overthrow him when assured of re-inforcements of men from the Peking militarists, Generals Tsao Kun and Wu Pei-fu, and of money from the Cheng-hsueh hui. General Li was one time civil governor of Kwangtung but later turned against Dr. Sun because of his failure to receive a desired place within the Kuomintang administration upon its return to power in Canton during the winter of 1920. For the time being Chen Chiung-ming appears to be the only leader in the field without disaffected followers openly opposing him, but inner partisans have declared that they would not be surprised to see a breach at any time between Yeh Chu and Hung Shao-lin in the Chen circle.

Fighting in Kwangtung up to June 15 has resulted generally favorable to supporters of Dr. Sun Yat-sen. On the North River front along the Canton-Hankow Railroad, Kwangtung Section, the remnants of Shen Hung-ying's Kwangsi and Wu Pei-fu's Kiangsi troops have renewed their strength somewhat, and are active in territory below Shiukwan and above Yingtak according to latest reports. The Cantonese and the Yunnanese forces are opposing the pro-Peking mixed brigades of about 6,000 strong on the North River front. The lack of a major commander over these two forces, the Cantonese and the Yunnanese, has caused no little misunderstanding but recently, and for the time being, unless there is better management of the campaign, the situation there is likely to develop into another interesting problem. On the West River front, fighting was active quite recently above Dosing City. As these lines are written, the port of Swatow might be considered Chen Chiung-ming's. Waichow, an important city in East Kwangtung, has not as yet fallen into the hands of Dr. Sun.

The present internecine struggle in Kwangtung, is a bitter one, especially to the innocent inhabitants in several towns and cities of the three war zones where homes have been ruined by complete destruction or by looting. In Canton, practically every citizen, rich or poor, young or old, is affected by the present war. In order to carry on the struggle, the authorities ruling Canton for the present have resorted to the sale of all possible temples against the protests of ward and street committees who claim ownership and of all possible public land and buildings not actually needed for schools or administrative offices. To further enlarge the war chest, trade guilds, monopoly-holders, leading organizations, district governments, and others have been ordered to contribute their customary taxes in advance and have been subject to forced loans to the General Headquarters Since payments for military expenses have had preference over civil expenditure, naturally most of the schools in Canton are now being forced to suspend all or part of their work, leaving many pupils idle. In many cases the people have lost their school houses altogether because the authorites have sold them to raise money for keeping up the war. The commandeering of private steamers and launches by the military authorities and the drafting of coolies for war transportation have brought about abuses and caused no little complaint since the beginning of the struggle. Special war taxes have been imposed on landlords and in some cases have been levied on the tenants also. The worst terror to the residents of Canton is due to the presence of counter secret agents and detectives of the government who arrest and hold suspects for heavy fines on the ground of any little suspicion of having connection with enemies of the present regime. Street fighting resulting from gambling disputes have been frequent in Canton. This and other evils brought about by the present struggle and the high cost of living due to interruption of internal water traffic and trade are bringing suffering to every Cantonese.

Canton June 16, 1923.

New Hongkong and Shanghai Bank

The new building of the Hongkong and Shanghai Banking Corporation was fittingly opened on Saturday, June 23, when thousands of persons filed through its corridors viewing the architectural accomplishments and unanimously voicing it one of the most impressive scenes ever experienced in the Far East. It is said the building is not surpassed by another foreign building in the world, and certainly not equalled by any of other governments in the Far East. The Hongkong and Shanghai Banking institution stands as representative of the British trade in the Far East since 1865.

The opening ceremony, which was presided over by Sir Ronald Macleay, British Minister to Peking who came down specially for the occasion, was made shortly after twelve o'clock. Those intimately connected with the bank also took part in the official ceremonies, and included, A. G. Stephen, chief manager; G. Stitt, Shanghai manager, Sidney Barton, British Consul-General, Sir Skinner Turner, Judge Peter Grain, C. J. Fox, Admiral Sir Levenson, General Ho Feng-ling, Hsu Yuan, A. Brooke Smith, and others.

The bank first opened to business in 1864, in a small building on the site where the Palace Hotel now stands. That building was torn down, and the present building was constructed, which affords dignity and simplicity through proportion and line, disregarding as far as possible carving and sculpture. The building is of Neo-Greek type, and is a mass of white Hongkong granite rising 100 feet to the roof and a further 80 feet to the top of the dome. The building has approximately a frontage of 300 feet on the Bund and 200 feet to Foochow Road.

Roy C. Bennett Returns to America

Roy C. Bennett, formerly managing editor of the *Manila Daily Bulletin* and for the past year a member of the staff of the *Review*, departed last week on the s. s. *President Pierce* for a visit with relatives in America who reside in Kentucky and in Philadelphia. In addition to his work on the *Review* he acted for a time as correspondent for the *United Press* and the *Chicago Tribune* and *Tribune Syndicate*. In connection with the *Tribune* and the *Review* he made a trip to Szechuan province and more recently covered the Shantung bandit outrage at Lincheng and Tsaochwang. Mr. Bennett is a graduate of the School of Journalism of the University of Missouri and before coming to the Far East was connected with newspapers in Kentucky, New Orleans, La., and in Texas.

Agriculture in the Economic Life of New China

BY JULEAN ARNOLD*
American Commercial Attache

(Continued from last week's issue)

The measure of transportation in West China is the human being as a beast of burden. There are a hundred million people in West China, in an area where there is not a mile of railway or a mile of motor road. These 100,000,000 people are cut away from the rest of China economically and to a certain degree politically, because of lack of economic transportation. If the cargo transported by the railways for the 100,000,000 people of the United States for the year 1919 were put on the backs of human beings, it would employ 800,000,000 men each carrying 150 pounds a distance of 15 miles a day for 365 days out of the year. This does not provide for the more than one billion passengers our railways carried.

A human beast of burden in West China is paid about 20 cents silver to carry 150 pounds 15 miles which seems to be cheap transportation, but works out to be ten times as expensive as railway transportation. China needs probably 50,000 miles of railways to take care of her pressing transportation needs. It has now less than 7000 miles. The United States, with a territory 1/7 smaller than China and a population 1/4 as large, boasts of 265,000 miles of railway, about 300,000 miles of metal surfaced motor roads and a total of 2,500,000 miles of public rural roads. The total amount of federal money in road projects completed and under construction during the year 1921 in the United States was nearly $200,000,000 gold. In addition to this sum, several hundred millions were allotted by the various States for motor roads. There are about 12,200,000 motor cars in operation in the United States, whereas China has less than 10,000 in operation throughout the entire country, with a motor road mileage of but a few thousand miles of graded dirt road and less than 100 miles of metal surfaced roads.

China's vast army of human beasts of burden is an appalling economic waste in the present era of railway and motor transportation. These millions of human beings should be devoting their labor to greater wealth producing employment while railways carry the cargo at less than one-tenth the cost and transport a hundred fold more, thus adding materially to the agricultural wealth of the nation.

A few years ago, an American agricultural expert, in travelling over North China after a severe flood, made the observation that deep plowing and afforestation would remedy the situation and at the same time prevent droughts through conserving the moisture. In this connection, a better utilization of the present water resources of North China, through pumping and irrigation works should do much to improve the entire economic situation in this section.

River conservancy work, such as the Hwai River project, will contribute substantially in lessening famines and floods through Central China and assure vast areas for cultivation. Naturally, projects of this character as well as extensive irrigation work can only be undertaken under government auspices, but there is needed an educated public opinion to impress upon the government the importance to the nation of such projects.

The family system in China, possesses as we all realize many admirable features. It has been largely responsible, along with that remarkable civil service examination system, for the perpetuation of the Chinese nation through these countless ages. In its contact with modern civilization, however, it lacks certain characteristics necessary to a successful meeting of a rapidly changing set of conditions. In its operations over many centuries, it has developed an individualism, with the family as the unit, which militated against cooperative activity, against the larger conception of man's relations to his community and to his society. Furthermore, the family system, combined with a stereotyped plan of education over many centuries, has tended to kill the initiative of the young men, as the son continues through the life time of his father subject to his father's commands.

The New China demands upon the part of its citizens an appreciation of the responsibilities of trusteeship in all its varied forms. Cooperative organization and initiative must be developed among the agricultural interests in China, if the great farming masses are to be lifted from their present deplorable economic situation.

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*(Address delivered before the North China Agricultural Conference May 18, 1923.)

The small holdings of the farmers of China have been handled on the individual family unit basis with little evidence of cooperative organization between the various units. The disastrous results of this system are apparent on all sides. The individuals may be, as they are, exceedingly industrious, but their labors bring to them a mere fraction of the results which would come through cooperative organization.

As a concrete illustration of what organized cooperative activity can mean to an industry of comparatively little importance, I shall outline briefly the development of the navel orange industry in California.

During the year 1870, an American Consul in Brazil sent several small budded orange trees to the State Department, Washington, with the idea in view of these being of interest to certain agricultural sections of the country. A few of these trees were subsequently sent to Southern California and the value of the fruit was soon recognized with the result that there is a present average annual production of 8,600,000 boxes of oranges and 3,000,000 pounds of orange by-products, aggregating $25,000,000 gold in value.

The services performed by the United States Department of Agriculture in the development of this industry have been outlined as follows:

Bureau of Plant Industry
- Cultural methods determined
- Variety stabilized and improved by systematic bud selection
- Disease-control methods determined
- Reaction of fruit to temperature conditions in transportation and storage
- Water and fertilizer requirements investigated
- Breeding of canker-resistant and more productive forms
- Suitable cover crops

Bureau of Soils ..... Suitable soils

Bureau of Biological Survey.... Methods of rodent control

Bureau of Entomology. ..... Methods of insect control

Forest Service ..... Investigations as to proper materials for boxes

Office of Farm Management .... Cost of production

Bureau of Chemistry
- Worked out test which under Food and Drugs Act regulates shipments of oranges
- Methods of using culls for orange juice, orange oil, marmalade, etc.

Bureau of Chemistry ..... Invoked Food and Drugs Act relating to synthetic orange juice

Bureau of Markets..... Enforces Standard Container Act

Federal Horticultural Board.... Enforces Plant Quarantine Act

Insecticide and Fungicide Board Enforces Insecticide and Fungicide Act

Bureau of Markets
- Inspects shipments and issues certificates of condition
- Reports number of cars moving
- Market news service

Forest Service ..... Supplies boxes under arrangements with cooperative growers

Bureau of Biological Survey Rodent destruction

States Relations Service .... Dissemination of proper methods by extension workers.

Bureau of Publications ..... Dissemination of information through bulletins, newspapers, articles, etc.

The orange growers in California did not sit by while the U. S. Department of Agriculture assisted them. In fact, it was through their organization that this assistance was forthcoming. The California Orange Growers Association regulates the size and quality of oranges which go into the boxes, assesses its members for the hundreds of thousands of dollars spent in advertising California Sunkist Oranges, takes charge of the routing and marketing of the car loads of oranges throughout the country, etc., etc.

It is because the California orange growers operate as a unit through cooperative organization that they own their orchards, ride about in motor cars and send their sons and daughters to college. California Sunkist Oranges sell in Shanghai in competition with China's unstandardized fruit, some qualities of which, the Swatow Honey Orange for

instance, are essentially superior to the California product, yet the Chinese orange growers are not riding about in motor cars nor are they sending their sons and daughters to college, in fact, many of them are just about one jump from starvation, while the consumer in the trade centers of China pays as much for the native product as he does for the imported article carried six thousand miles across the ocean.

Indicative of the effectiveness of cooperative organization among the farmers of California are the facts that 97% of the berry growers in Central California are in one association; 86% of the almond growers market their products as a unit; 92% of the raisin growers pool the sales of their products, amounting now to nearly G. $40,000,000, annually, even selling hundreds of thousands of dollars worth in China; 83% of the apricot growers entrust the handling of their fruit to an association of their members; 80% of the prune growers are linked together in one of the strongest of cooperative associations; 75% of the walnut growers cooperate in advertising and selling their nuts; 80% of the peach growers entrust their fruit to a common organization; 75% of the lima bean growers, and 50% of the pear growers are a unit,

The California cooperatives are now handling products in excess of $250,000,000 gold a year. These include even the egg interests, whose association now handles over 23,000,000 dozens of eggs a year. Through the energetic methods of the California Prune Growers Association, the consumption of prunes has been increased in the United States in three years from 47,000,000 pounds to 112,000,000 pounds. The ambitions of the California prune growers do not stop with the United States as their market, for they are putting on an extensive foreign trade campaign and they look to the day when millions of pounds will be consumed in China and the Far East.

Government and missionary schools in the farming sections of China teach the boys and girls arithmetic and geography but apparently not the arithmetic, geography and economics of agriculture and marketing, as the children graduate seemingly unfitted for their environment hence not the useful members of their community which they might otherwise be.

China gave silk to the world. We read that as early as 2800 B. C. the Emperor taught the people the use of the mulberry leaf in feeding the silk worm. For centuries, China safe-guarded the secrets of the silk industry from the outside world. Today the United States is the largest importer of raw silk in the world, its importations of this article aggregating from three to four hundred millions of dollars gold a year. Nearly 80 percent of America's raw silk comes from Japan. This industry has expanded so rapidly in the United States that it has been found necessary to secure a larger source of supply. The United States does not produce a pound of cocoon. Six years ago, the Silk Association of America turned its attention to China as a possible additional source of supply of raw material. Up to that time, the silk produced in China met only the needs of their hand looms. It was poorly adapted to the high speeded machine looms of the United States. It became necessary to make certain changes in the size of the skein, methods of lacing and gum content, to meet American conditions.

The Japanese silk producers have sent representatives to America to familiarize themselves with the peculiar demands of the American market, thereby taking advantage of opportunities for increasing their trade in this important commodity. The Japanese interests have met the situation as indicated by the fact that the raw silk exported from Japan to the United States represents the largest item in Japan's foreign trade.

The silk guilds, the chambers of commerce, the educational authorities, the China student organizations and the various governmental agencies of the provincial and central governments of China, as well as the Chinese silk producers, had up to very recently shown no interest in the possibility of adding several hundreds of million dollars a year to the export trade of China through meeting the needs of the American market in the adoption of the requirements of the American high-speeded machine looms. It remained for the Silk Association of America, through moving pictures, to demonstrate to China's silk producers the advantage of meeting the needs of America's requirements. As a result of these labors, the silk producers in South China and the Yangtze Valley are now making standard American skeins. Consequently China's silk exportations to the United States are now rapidly increasing both in value and quantity. The Silk Association of America has sent two representative delegations of silk manufacturers to China further to encourage China in producing better and cheaper silk. The American silk manufacturers have also taken an active interest in the improvement of sericulture in China. The Silk Association of America is contributing liberally to the International Committee for the Improvement of Sericulture in China, and to the departments of agriculture of the University of Nanking and the Canton Christian College to encourage their work in sericulture. It has been demonstrated that with the eradication of pebrin, a disease peculiar to the silk worm, China can increase her silk production several fold and thereby add hundreds of millions dollars to the nation's wealth through this simple means. It is merely a question of furnishing the silk growers disease-free eggs, which are easily secured through microscopic examination of the moth producing the eggs, and through the elimination of the eggs of diseased moths. This is known as the Pasteur method and is comparatively simple in its application. It will mean the saving of hundreds of millions of dollars to the silk industry of China. This work has been initiated by foreigners. The Chinese silk producers are now convinced that it is a matter of great importance to the silk industry and their cooperation is assured. Here again we have a striking example of the necessity of effective cooperative organization. Also there are indicated here, opportunities to make the curricula in the schools of the silk producing sections of China of more practical significance to the great masses for whom education should be of real service. I am informed that some of China's sericultural schools are still teaching antiquated methods. Periodic conferences of all sericultural schools in China should be held and improved methods adopted.

The cotton industry of China also offers great potentialities for the increase of the country's wealth. We have no definite statistical data regarding the cotton grown in China, any more that we have reliable statistics covering any of the economic phases of China's life. Some estimates place the normal cotton crop of China at three million bales (one bale is equal to 500 lbs.). Other seemingly reliable anthorities, place the estimate at as much as five million bales. It is however, known that the cotton production in China is on the increase. The Chinese have produced cotton for centuries. Cotton is apparently indigenous to China. The native plant possesses such distinct characteristics that botanically it can be differentiated from the cotton of the western world. It refuses to hybridize with other cotton, although cotton is a very gregarious plant. The Chinese have, however, made no effort to improve their cotton through all of these centuries and now that the modern spinning and weaving industries are rapidly developing in China, it is discovered that the short staple Chinese cotton is not adequate for the purpose. Imports of Indian and American cottons are required to meet the needs of the modern cotton mills in this country, which are using mixtures of Chinese and foreign cottons. The Department of Agriculture of the Nanking University, with which there is connected an American cotton expert, discovered a few plants of the native cotton of unusually long staple. These are now being propagated under the strain "Million Dollar Cotton". There is a great danger, however, that in the importation of American cotton seed into China, the disastrous boll-weevil may be introduced. This insect has resulted in hundreds of millions of dollars of losses to the cotton industry in the United States. A few hundreds of thousands of dollars spent during the early stages of the ravages of this pest would have saved the United States a billion dollars in subsequent losses due to the boll-weevil. This is a glaring instance of the failure of timely cooperative organization in the United States. Unless great care is exercised, China's cotton interests will suffer very seriously through the introduction of this pest. It will require cooperative organization to prevent this introduction, as it will also require cooperative organization to extend in a satisfactory and effective manner the growth of the longer staple cottons in China. The potentialities of cotton in China are, however, very extensive and hundreds of millions of dollars can be added to China's wealth through proper attention to cotton growing in this country.

It has already been discovered that the manufacture of cotton yarn and cotton cloth can be done at lower costs in China than probably elsewhere in the world. It is also true that China possesses the greatest market for the sale of cotton goods. Thus the combination is such that the cotton industry in China, in all of its varied phases, is a remarkable wealth producing asset, if effective cooperative organization will come to its assistance. When the schools in the cotton growing and cotton manufacturing sections of China indicate an interest in teaching the geography, the arithmetic, the agriculture and the economics of cotton then we may hope for the full realization of China's potentialities as a cotton growing and manufacturing country.

In journeying from Shanghai to Peking on a Chinese government railway, recently a first-class passenger ordered a cup of Chinese tea, but he was told by the Chinese waiter that they carried no Chinese tea, and could only give him the foreign brew. This was not mere accident, as this condition has existed for a number of years. Imagine the railways of California having to confess that they were unable to supply their patrons in the dining cars with California oranges, as

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they carried only the Florida product. Tea is indigenous of China, in fact the word came from the Amoy dialect. It appears China has given tea to the world. Tea experts will admit of the superiority of the Chinese tea and yet, through the lack of cooperative organization, the China tea industry has gradually assumed lesser importance among the tea drinking countries. India, Ceylon and Java teas have, through an organized system of production, marketing and advertising, nearly replaced China teas in the non-tea producing countries of the world. Furthermore, China, the land of tea, is now importing in considerable quantities tea from without. Tea can be produced in China cheaper and better in quality than elsewhere, but the Chinese government, the provincial administrations, the tea guilds, chambers of commerce, educational institutions, student bodies and tea growers, have shown little or no disposition to work for the improvement of the industry or to bring about effective cooperative organization to aid China's tea business abroad. Hundreds of millions of dollars could be added to the wealth of the country through proper cooperative organization by various governmental, business, educational and agricultural interests in aid of this industry. Are the educational institutions of China today teaching the coming generations the significance of China's resources as a tea producing country?

Under foreign supervision, there has been developed a very considerable export trade from China in wood oil. This business has grown to such proportions with the United States, that that country is now importing annually nearly twenty million dollars worth of wood oil for use in the manufacture of varnishes and paints. The American paint and varnish interests now find themselves confronted with a situation which forces them to consider very seriously the necessity of growing the wood nut in the United States in order to protect their future against the uncertainties in supplies and prices with which they now have to contend. The price of wood oil at Hankow has advanced from ten to nearly forty taels per picul within a very short period. This remarkable increase is due primarily to disturbed political conditions in the regions where wood oil is produced, but costly interior transportation, unreasonable tax exactions, heavy adulteration with cheap oils and bad marketing methods assist to threaten to kill this industry in so far as it figures in China's export trade. Wood oil could easily be developed to add tens of millions of dollars to the wealth of China. But here again it will be necessary to secure effective cooperation between the grower, shipper, middleman, exporter and governmental agencies. There is a danger that unless this matter is taken into hand in the near future the American market will be lost to China through the development of wood nut industry in the United States. Can we expect the educated youth of China to appreciate the significance of these important matters to the welfare of their country, when the schools in which they have been educated ignore subjects of this character preferring instead to perpetuate academic China?

It is estimated that seven out of every ten children in China die before they reach the age of three. This appalling infant mortality is a very serious drain upon the country in many ways. One of the important causes of this heavy infantile death rate is the lack of proper nutriment. Within the past few decades the Chinese have come to appreciate the value of milk and the imports of tinned milk have been increasing very rapidly year after year. Is it not strange that a country with a civilization as old as that of China, should have failed to have developed a dairying industry? Dairy products produced in the United States amount in value annually to about $1,200,000,000, furthermore cattle killed for food aggregate in value $800,000,000 annually, thus this great industry means an addition of two billions annually to the wealth production of the United States. The figures indicate, to a certain degree some of the potentialities facing China in connection with the development of a similar industry in this country. There are hundreds of thousands of square miles of lands in China which can be used for grazing purposes, provided transportation is developed to make these accessible.

Only within the past few years have any attempts been made to improve the quality of pork, sheep, beef and animal products generally in China, and these only in a small way. Foreign business concerns have sent representatives to China to secure supplies of pork, beef, mutton, poultry, game, eggs, etc. As a result, a very considerable trade in these commodities has been developed, amounting to tens of millions of dollars annually. With some systematic attention to the improvement of the animal products of China, her wealth production could be easily increased by several hundreds of millions of dollars. Here again lies a world of opportunity for educational institutions, governmental agencies and business organizations in effective cooperative organization.

It seems strange that, although the Chinese have been agriculturists continuously for so many centuries, in fact, for

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several thousands of years, the ideas of selection have not entered into their agriculture in a larger or more important way than they have. Too much has had to be left to the individual or family. There has been no active governmental agencies to encourage or assist in improving agricultural methods, or processes. Systems of education which, early in their history became stereotyped were not receptive to influences from without or to changing aspects in scientific developments elsewhere, hence the individual was obliged to shift for himself and Chinese society took on very decided aspects of *laissez faire*.

By way of contrast, we may consider the work of the Japanese agricultural experimental station at Kung Chu-ling in Manchuria, operated under the auspices of the South Manchuria Railway. After investigation of hundreds of varieties of soya beans grown in Manchuria, it has been able to select three varieties which produce 22 percent oil as compared with an average production of 18 percent for the ordinary soya beans. By propagating the three special varieties selected, the Japanese are hopeful that the bean and bean oil industry of North Manchuria may be made proportionately more productive. Similarly this station is experimenting with kaoliang (kafir corn). It discovered that the Chinese are growing over a hundred varieties of this productive plant. It has singled out several varieties which produce over 5000 seeds to the stalk, and these it intends propagating with the prospects in view of effectively improving the productivity of this important cereal of North China.

Some years ago the State of Iowa increased the production of its corn 33-1/3 percent merely through the selection of a better quality of seed corn for the growers and without increasing the acreage under production. Even with the Chinese intensified cultivation, where it appears that the family gets from the soil all that the soil is able to produce, there remains a remarkably big work to be done by way of increased production through scientific seed selection. The Nanking University has discovered from fifty to sixty varieties of wheat being grown in the Yangtze Valley. It appears the Chinese farmer often sells the best of his grain and keep the poor for seed. This is a subject which should have the attention of educational authorities, government and mission schools, governmental agencies, both central and provincial, chambers of commerce, student organizations and every other group interested in better economic conditions obtaining in China.

Closely associated with the important subject of economic transportation in China, as it pertains to agriculture, is that of marketing. The present marketing methods are horribly antiquated and disastrously uneconomic. The flour mills of China are constantly complaining of their inability to secure supplies of wheat at reasonable costs. Numerous charges, which are piled on from the time the wheat leaves the field until it arrives at the mill, are such that millers have purchased wheat from America at three or four fold cost over the prices paid to the Chinese farmers, delivering it at the mills cheaper than much of the Chinese wheat could be delivered. The charges added on to the wheat from the time it leaves the field until it reaches the mill, are exhorbitant and seriously affect the whole industry. These charges involve unreasonable commissions to middle men, internal taxes of exhorbitant amounts, excessive transportation charges, heavy adulterations and usurous interest rates to the farmers while the wheat is in the ground.

The question of the standardization and classification of products are most important, but are difficult of solution in China where there are small farms, numerous growers, a great variety of products and a complicated combination of circumstances affecting transportation and selling methods. China's exports could be increased by several hundreds of millions of dollars through standardization of products. To eliminate the unfavorable factors militating against standardization and classification will require time, but steps should be taken in this direction as Chinese agriculture can hardly be made very profitable until this is accomplished. This work can be greatly encouraged through proper educational propaganda. Here again the motion picture film can perform an important service.

Some years ago an American missionary made efforts to induce some of the farmers in his community to adopt the cradle as an improvement over the little hand sickle. In a demonstration, he showed how it were possible for one man with a cradle to cut eleven times as much as with a sickle. The villagers were deeply impressed and took the matter under advisement. Two weeks later they handed down their decision. Because the thieves at night might with the use of the cradle steal eleven times as much as with a sickle, it was deemed dangerous to introduce this

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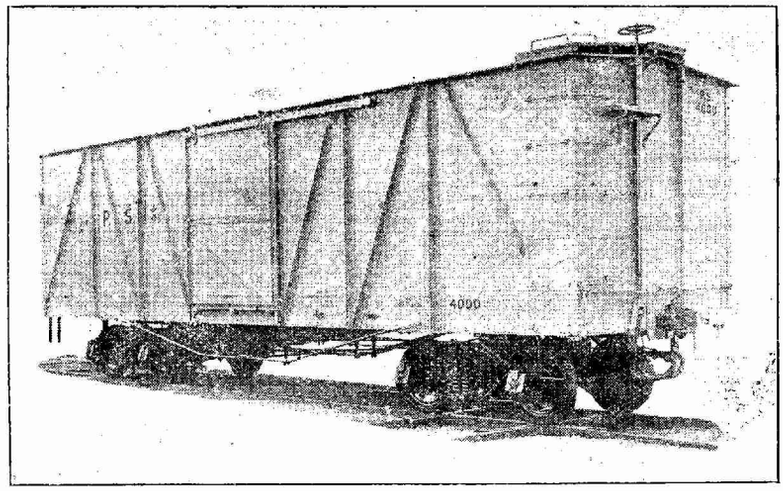

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western innovation. It would not be fair to hold this instance out as typical. Old established ideas and customs are not scrapped in any country or among any peoples without effort. The Chinese of today are far more receptive to change than were their ancestors of one or two generations back, in fact, China of today may be differentiated from the China of twenty-five years ago, in that the people are now receptive to change while those of a quarter of a century ago were self sufficient. It will be necessary however to carry on an intelligent educational campaign to convince the farming masses of the advantages of improved farming implements, of deep plowing, of scientific seed selection, of improved breeds of stock and cattle, of better marketing methods, of standardization and classification of products, of the elimination of adulterations, of the abolition of usurous interest rates, of good roads and railways, of afforestation, of good farm schools and last but not least, of effective cooperative organization.

A few months ago, there was held in the small Hsien city of Lin I, in the heart of Shantung, an agricultural institute, under the auspices of the American Presbyterian Mission of Tsinan, and as part of the extension work of the Department of Agriculture and Forestry of the University of Nanking. The local officials enthusiastically cooperated and lecturers from the provincial agricultural college and from the Nanking University agricultural department described and demonstrated methods of better cotton cultivation, soil improvement, seed selection, deep plowing, etc, etc, with surprisingly good results. Illustrated lectures were given at night before audiences of several thousands of country people. The masses in China are receptive, but results can only be attained through some such practical methods as adopted by this mission upon this occasion. The motion picture film can now carry the western world to China, and more can be accomplished through its intelligent use than through the printed literature of the world translated into the simplest Chinese and distributed free of charge over the entire country. Illiteracy among the adult population of China need no longer be considered an insurmountable barrier to education, for with the judicious use of the motion picture film miracles can be performed in a practical educational way.

In an agricultural college in China, a class of one hundred boys were asked if they were expecting to return to the country after their graduation. Ninety-nine out of the hundred emphatically declared their intentions of making their homes in cities and one timidly showed an inclination to follow practical agriculture as a means of a livelihood. While it is decidedly wasteful for any nation today to use 80 percent of its population to feed the country, yet this proportion will not be decreased to China's advantage, if the farmers of the new China are not to share in a large measure in efforts to give the people the advantages of modern education or if the agricultural population is left in ignorance.

So long as agriculture is left to the ignorant masses, just so long will famines, brigandage and economic disasters prevail in China. Agriculture is the back bone of China, and until China's agriculture effectively responds to the influences of modern science and modern organization, China's back bone will remain weak. When the back bone of the nation is substantially strengthened then we shall have a state of general prosperity. Hence it is to the interest of all who wish China well to cooperate in lifting agriculture and the agriculturists in China to a higher plane. Only then will China's economic ills be susceptible to permanent improvements.

I trust that my remarks today may not in any sense be interpreted as being unduly harsh in their criticisms of agriculture in China. I did not take the time to speak of the favorable aspects of China's agriculture. I recognize the fact that much might have been said in this connection. I am not an agriculturist. My remarks are those of one whose work has brought him into close touch with the economics of agriculture and it is from this view point that I have tried to be helpful in a consideration of this subject. It is probably unnecessary for me to state that my criticism against the present conditions in agriculture in China are distinctly friendly in nature and made for the purpose of being helpful to a betterment of this very important phase of China's economic situation. I trust that my Chinese audience may not carry away the impression that I hold up America as the last word in perfection in agricultural methods and ideas. All who are familiar with the economics by American agriculture realize that there are still numerous unsolved problems with which to contend. America has learned much from China agriculturally and has still more to learn. On the other hand China has much indeed to learn from the United States and the people of the United States are very pleased to give to the Chinese the advantages of what they have learned during the past few decades in making their agriculture a contribution to the wealth and welfare of the nation.

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Men and Events

Frank Rhea, U. S. Trade Registrar for the China Trade Act in China, is planning to sail for America on June 30, on the *s. s. President Jackson*, on a four months furlough.

R. Demming of the Texas Oil Company, returned to Shanghai last week after an extended furlough in America. Mrs. Demming accompanied him and they are stopping at the Astor House.

Philip Kerby, representative in China for the *New York Tribune* and a member of the staff of the *North China Daily News*, departed for Peking on Friday, June 29. He was accompanied by Mrs. Kerby.

J. E. Hayes of the J. E. Hayes Engineering Corporation, Tientsin, has recently come to Shanghai to make his headquarters. He is accompanied by Mrs. Hayes and they are living at the Palace Hotel.

The American Chamber of Commerce held its annual meeting on the evening of Friday, June 29, at the American Club at 8 o'clock. D. J. Lewis, secretary of the club, handled the reservations.

Nelson T. Johnson, U. S. Consul-at-Large, returned to Shanghai last week from an inspection trip in connection with the U. S. consulates at various ports along the Yangtze. Chungking was the last port visited.

Robert Mishler, of the Shipping Department of the Robert Dollar Company, Shanghai departed last week for America, planning to go by way of Russia and Siberia. Mr. Mishler will spend a short time in Europe before proceeding to his home in Washington D. C.

A limited supply of the following publications have just been received at the office of the American Commercial Attache, Shanghai: Tariff Act of 1922 on Imports into the United States—price G. 10¢; Tariff Information Surveys—Manufactures of Leather—price G. 15¢.

The annual Fourth of July party at the Columbia Club will be held on the evening of Tuesday, July 3, when dancing will begin at ten o'clock. Entertainment and fireworks will be provided at midnight on the lawn if the weather permits and supper will be served at midnight.

F. H. Kreis of the U. S. Consulate, Shanghai, left last week for America on furlough, on the *s. s. Juna*. Mr. Kreis will spend several months visiting his parents in Milwaukee, Wis., after which he will go to Washington to take the consular examinations, and return to Shanghai by way of Europe.

Josef W. Hall, formerly engaged in newspaper work in Peking, but for the last year a member of the faculty of the University of Washington at Seattle has now joined the Pond Lyceum Bureau for a lecture tour of the United States which will require several months. He expects to return to China next spring or summer.

The engagement has been announced of Miss Mei Yuindziao, a graduate of Pomona College, now a teacher in the Methodist High School for Girls, Chengtu, and the Rev. Donald Fay, a graduate in Arts of West China University and in Divinity of Chicago University and now pastor of the Baptist Church in Chengtu.

Joseph E. Jacob, formerly Senior Mixed Court Assessor from the U. S. Consulate, Shanghai, returned to Shanghai last Friday on the *s. s. President Wilson*. In addition to Mr. Jacob's six months leave, he spent three months in special detail work for the Department of State, and is planning to make a special investigation in China, before taking up his regular duties at the consulate

The marriage recently took place at Sea Cliff, Long Island, N. Y. of Samuel Fung, a young Chinese assistant treasurer of the Wah Chang Trading Corporation and Miss Jesteen Steiert, daughter of Mr. and Mrs. Charles Steiert. Mr. Fung is a graduate of Stevens Institute of Technology and is twenty-one years old. Mr. and Mrs. Fung departed on their wedding trip to be spent in Bermuda and the Orient.

Mrs. J. G. Hammond, detailed as accounting officer for China organization of the U. S. Commercial Attache office in China, arrived in Shanghai last week from San Francisco on the *s. s. President Wilson*. Mrs. Hammond was formerly Foreign Trade Secretary of the Cleveland District office at the U. S. Department of Commerce, Washington, D. C. Mrs. Hammond departed for Peking on Saturday, June 23, to receive her assignment.

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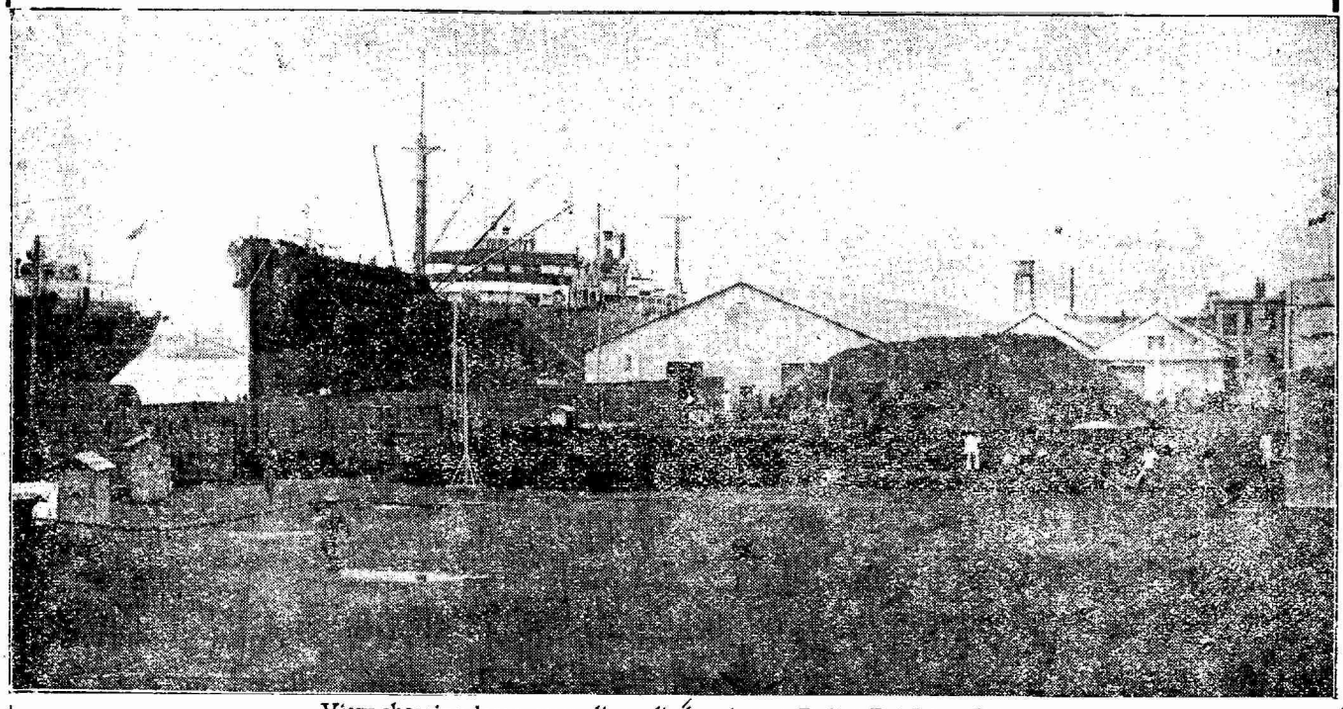

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Agencies in principal cities throughout China

According to an announcement the entire first class cabin accommodation on the *s. s. President Jackson*, leaving Shanghai, August 17, has been reserved for 150 Chinese students who are going to America to pursue their studies in American colleges and universities. The majority of the students are graduates of Tsing Hua College and many of them, are going to America with the money provided by the Boxer Indemnity returned from the United States.

A. H. Ford, director of the Pan Pacific Union has been doing some follow-up work of the Pan-Pacific Commercial Conference in Japan and China, appointing strong and influential committees. These committees will be appointed n every country of the Pacific, and when all the appointments have been accepted, they will be put in touch with each other, a permanent organization effected and work carried on to see that the resolutions adopted at the Conference are put into effect.

The Total Abstinence Society of China, formerly known as the "The Christian Temperance Society" was recently re-organized under the new name given above, for the purpose of arousing the interest of the entire nation in this movement. Some of the duties of the club is to get people to abstain from drinking and promoting moral and hygienic standards of the people. A magazine with the title of "Awakening China" will be published monthly, the price of which is one cent a copy, and the yearly subscription $0.12 cents.

The marriage of Harold C. Pond, of the Amos Bird Co., Yangtszepoo, and Miss Magaret Carlyle, daughter of James C. Carlyle of Toronto, took place on Monday, June 25, at the St. John's Pro-Cathedral, Shanghai. The Rev. Dr. F. L. Hawks Pott, president of the St. John's University, officiated. Miss Carlyle has been teaching in the North China American School in Tungchow near Peking for more than a year. Mr. and Mrs. Pond will be at home after July 10 at the Dollar Apartments, Avenue Joffre.

Notes from Szechuen

The ink will be scarcely dry on the reports that have been sent to newspapers from Szechwan within the past week recording the over-whelming victory of General Yang Seng and the Northern Troops over General Hsiung Keh Wu and his miserable Szechwan Army. We say, the ink will scarcely be dry from the press when this report follows. Unfortunately, most of our foreign friends have been backing General Yang with their sympathy. Does he not represent General Wu Pei Fu—surely a name to conjure with! Has he not shown more up-to-date methods than any official we have had for years? Does he not stand for the Unification of China and all such high-sounding shibboleths? Yea, verily, but the sad fact seems still to be facing us that General Yang and the foreign plans have failed.

We have endeavored consistently to hold up this fact from day to day, and from week to week, since the now famous retreat of April 4th. From the mere statement, "He will come back again," we have tried to show that Hsiung Keh Wu has gained every inch since then. But there are some very blind people in the world. Especially blind when our sympathies and hopes are all on one side, if that side is losing.

So, when General Yang drove back from Tzechow last week for his third attempt to break through to this Capital city, we were assailed on all hands with the triumphant cry that he was now getting here. But he had first to get through Lai Hsin Hwei who is showing that, whatever else he does, or knows, he knows how to wage war and is a tactician of no mean ability. So we waited till he was through Lai Hsin Hwei before we said much.

Yesterday, almost without the least warning, the news came that Yang Seng was making tracks for Chungking about as fast as Cheng Hsia Ling went to Yachow a few weeks ago. Of course we know what happened. Lai Hsin Hwei just pulled their legs till they stretched far enough, then he cut the legs off! And the head rebounded like a rubber ball! Poor Yang Seng! It is never pleasant to see a man of ability fail.

MA CHANG INVENTED IN CHINA SPREADS ALL OVER THE WORLD

As they play the game in China—the native "Home of Ma Chang."

SOME three thousand years ago, according to the legend, there was a fisherman named Sze who lived on the shores of the East Chien lake near Ningpo. There were many fishermen who lived about the shores of East Chien Lake, but Fisherman Sze was more enterprising than the rest for he decided that more fish could be caught from a boat than by standing on the shore. Sze's family had considerable wealth and they backed him in the purchase of several boats. Then he employed a hundred fishermen from other villages and started out to try his luck. All went well until the wind began to blow and then Sze's troubles began for all of the fishermen were "land" fishermen and unaccustomed to the rolling seas. They became seasick and had to be taken ashore.

It looked like bad joss to this early Isaac Walton so a family council was held and it was decided that seasickness was merely a matter of the mind—imagination if you please—therefore the thing to do was to devise some method for getting the men's minds off their *mal de mer*. Fisherman Sze and his nine brothers then thought long and seriously and the result was a game which they called *Mah Diau*.

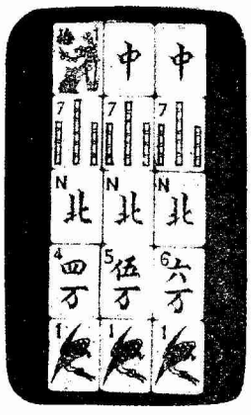
So there you have the origin of "Mah Chang" "Mah Choh," "Mah Jongg," "Mah Diao," "Pung Woo," "Pung Chow," or "Mah Juck," "Pe Ling," "Mah Cheuk," or whatever you desire to call this game of the ancient Chinese which has taken America by storm and which is being "taken up" in London, Paris and other world centers not to overlook Chicago and Hannibal, Missouri and other points west. The game of *Mah Diau* as originally played by the lowly fishermen in the employ of head-fisherman Sze consisted of 108 pieces of cardboard, was played by four persons and each held 13 cards even as today is the practice in Shanghai, New York and Washington, D. C. And according to the legend the fishermen became so absorbed in the game of Mah Diau that they forgot their seasickness and as a result Sze and his nine brothers prospered and founded a great family which lives even unto this day.

From this humble beginning the game "caught on" and next we hear of one Chen Yu-mun, an officer in the imperial Chinese army who was also stationed at Ningpo, the provincial metropolis of Chekiang province of China. General Chen's chief job was

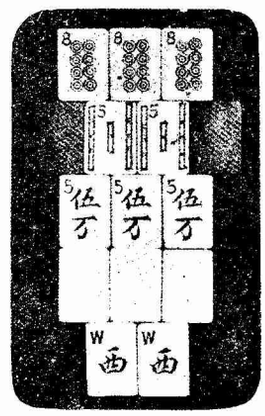
that of bandit catcher and his army was known far and wide because of the white caps which they wore. But General Chen was sorely worried because of the habits of his soldiers in falling asleep during the wee sma' hours of the night at which times the bandits would slip through the lines and hold up trains, or whatever the means of conveyance were in those days. Hearing of the wonderful game of Mah Diau which was so fascinating that fishermen forgot to get seasick while playing it, he possessed himself of several sets and tried them out on his night guards. It worked moderately well, but due probably to the fact that soldiers, even in those days, were more *blase* than simple fisher folk, General Chen still had trouble for some of his soldiers persisted in falling asleep when they should have been watching for bandits. After great meditation the General solved the problem by inventing some new cards *chung* (red) *fah* (green) *pah* (white) and *north, south, east and west.* This brought the number of cards up to 136 and never again, says the story-tellers, did General Chen have trouble with his soldiers falling asleep. They stayed awake all night and he is reported to have had trouble thereafter in pursuading them to go to sleep. They wanted to play the new game all the time.

Figuring up their respective scores.

As time went on, continues the chronicler, certain persons of low repute, gamblers they were called, took up the game and by means of the simple little cards took away the wages of the aforementioned fishermen and soldiers. But the gamblers also made their contribution to progress for it is said in the records that a famous exponent of profit by chance one Chang Shiu-Mo by name, and also of the village of Ningpo found that the number of cards was not sufficient. So he added some more, *spring, summer, autumn* and *winter* and *Mei* (plum blossom), *lan* (orchid), *Ruh* (chrysanthemun), and *chuh* (bamboo). This made the game so terribly fascinating that it spread to the far boundaries of the celestial empire and has continued to this present day to be the chief method of recreation for officials and persons of the upper classes and even into the lair of the bandits of Paozuku who have found their diversion in the click and play of the little ivory and bamboo tiles as they move deftly from hand to hand about the table.

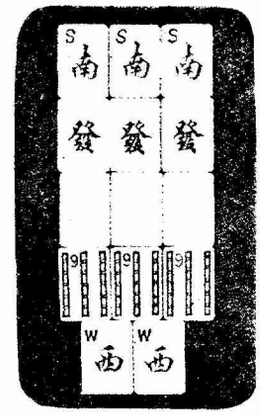


A score of "thirty-six" on the table.

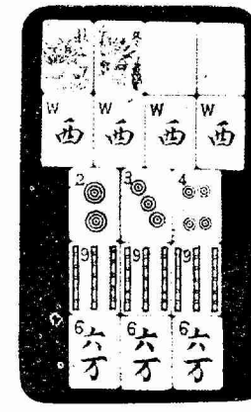


One more and ready to Ma Chang.

There isn't much more to the history. Later on some enterprising manufacturer made a set from bamboo and then his competitor, across the street remembering the white capped soldiers, of the Ningpo legend, added white bone or ivory caps to the bamboo and thus we come to the modern days when the dull pages of the Chinese Maritime Customs returns are made more interesting by items telling of exports of unbelievably large cargoes of this interesting Chinese game being exported to foreign countries by fast steamers. An American magazine, *Vogue*, in a recent issue explains the "Ma Chang craze" for such it seems to be, in this fashion:



A score the envy of any player.



Ma Chang!

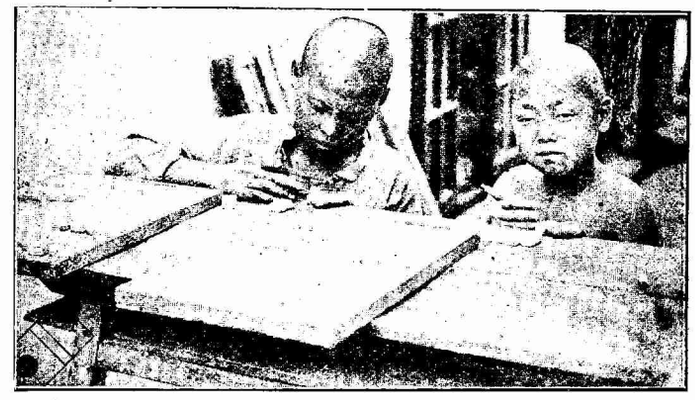
"Foreigners, fortunate enough to have sojourned in that interesting land during the past three or four years, have been gradually disturbed from the satisfied contemplation of their beloved bridge and awakened to a growing and persistent interest in this game of the conservative Celestial. There came a day when we, too, half reluctantly, sat down to see for ourselves just what this much talked-of game was like, and presto!—the thing was done. We also became one of the ever-increasing and fascinated throng whose interest has spread contagion along these shores. Would that a more perfect knowledge, proportionate to such enthusiasm, had been acquired by many of those people whose sweeping and ofttimes surprising methods of teaching the game have been so liberally thrust upon an unsuspecting public!"

The *Boston Transcript* in its issue of May 26 devoted an entire page to the subject of Ma Chang and among the notables credited with being devotees are President and Mrs. Harding and members of the Cabinet. An extract from the *Transcript* article says so—honest to goodness it does! Read what it says:

"The craze in Washington is such that the resident who does not know how to play the game is comparable to the 'wallflower' in the ballroom. As a matter of fact, practically everyone is playing it and many of the homes have a set of some kind. This is especially true of the Executive, diplomatic, military and naval circles. President and Mrs. Harding have taken up the game, as have the honorable justices of the Supreme Court of the

Above—Exterior of factory with Executive Staff.

Sawing wood into box parts.



Right—Close-up view of engraving and drilling "tiles."

United States, the members of the cabinet and of Congress and their families. Mah Jong parties are being held almost every evening throughout the city—even Mah Jong teas are being given—and it is conceivable, with summer approaching, that in Washington, as in Shanghai, the incessant click of the bone and ivory counters and playing pieces will carry distinctly through the clear night air. For in Washington, as in Shanghai, the residents spend their evenings out-of-doors, because of the heat, and members of the naval set, who have had tours of duty in the Orient, report that on any evening in Shanghai 'the tinkle of the bones' can be heard for blocks through the residential districts."

And then the trouble began—there is always trouble in every story of achievement—for it developed that it is one thing to start a "craze" and an entirely different matter to supply the where-with-all to supply the craze. Orders began coming to China for sets of this Chinese game and the Chinese manufacturer looked up from his work-bench where he was turning out "characters," "bamboos," and "circles," all deftly but slowly done by hand in the manner of his fathers, and said, "No can do," and went back to his work.

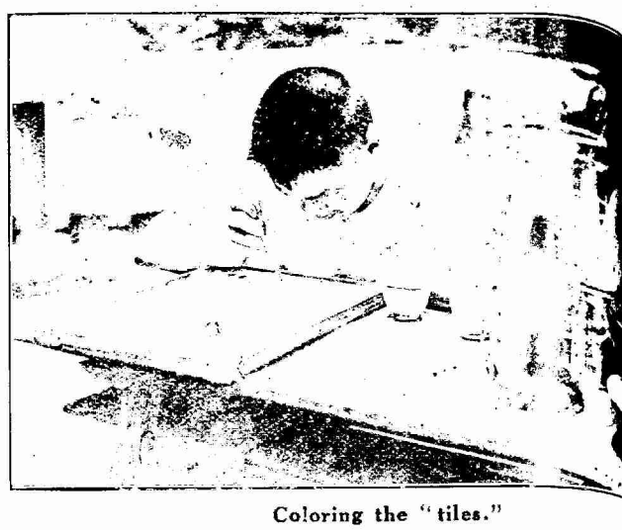
"But we must have Ma Chang even though it leads to foreign intervention and the scrapping of the Washington treaties," said the buyer for the American department stores, the novelty shops and the high-class dealers in up-to-the-minute goods. "America has always been the friend of China and countless as the sands of the sea-shores are the lowly Chinese who have been uplifted through the efforts of self-sacrificing sons of Uncle Sam, but we must have Mah Chang sets and by the thousands."

The Chinese manufacturer grumbled something which sounded suspiciously like "crazy foreign devils," and resumed his work. Buyers were in despair. They searched the shops of Shanghai and then they raided the outlying districts of Soochow Hangchow, Wenchow, Yangchow and they bearded the dragon of Ma Chang in his native lair of Ningpo. They bought all the available sets and they kow-towed before the manufacturers, but to no avail. Chinese manufacturers had been making this game for centuries and they saw no reason for changing methods which the fathers, grandfathers, and great grandfathers to the nth generation had found successful. Furthermore there was a scarcity of labor. Each shop or "factory" contained from a dozen to thirty workers and each shop did one thing, that is, one shop sawed the bone into squares and another did the polishing and still another did the engraving while still another sawed the bamboo and so on through a maze of operations which through the centuries had slowly produced perfection.

So why change the system just because a lot of crazy foreigners wanted to play a Chinese game? And then there was another problem as expressed by one dealer, "No can get plenty bones." It seems that the white bone faces on the tiles can only be made from a small section (about seven inches in length) of the shin-bone of the cow and China's cows, long accustomed to supplying a certain proportion of their framework for this purpose, refused to yield any more. The Chinese dealers had these foreign buccaneers then. "No can get plenty bones!" The case was settled and he went back to his work again.

But at this point stepped in Old Man American enterprise. "We'll get the bones for you," the buyers shouted and Messrs. Swift, Armour, Cudahy and Libby in Chicago, Kansas City, and Omaha got

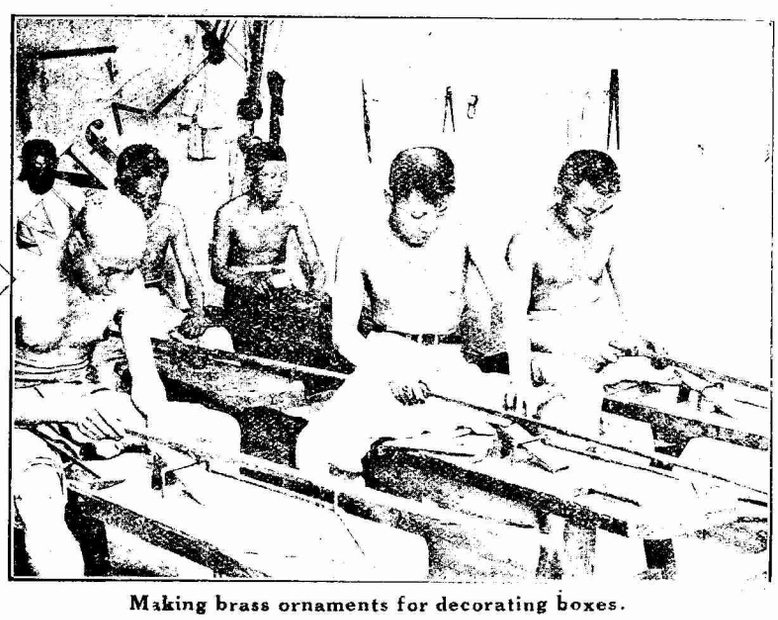
Sawing wood for boxes.



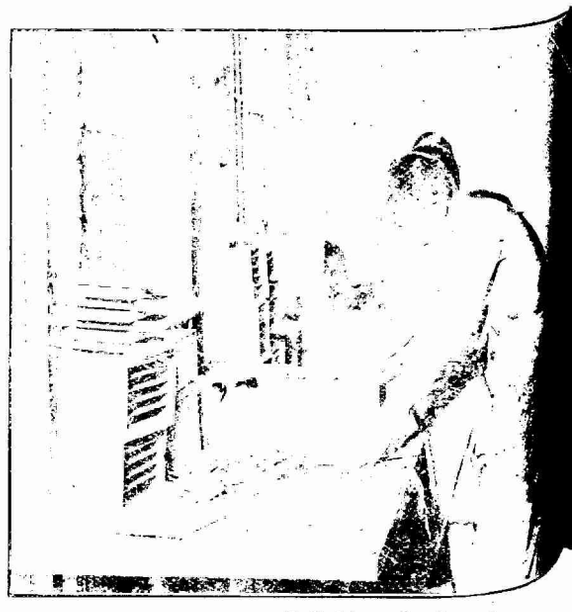
Coloring the "tiles."

Varnishing boxes—Kitchen department in background.

Lee Solomon & M.D. Silas, two of the proprietors overseeing the ex



Making brass ornaments for decorating boxes.



Polishing the boxes.

Flattening bone with native chisel.

Part of the 400 employes.

g of the "tiles."

Scraping the bone of the "tile."

Coloring the "tile."

Flattening the bone.

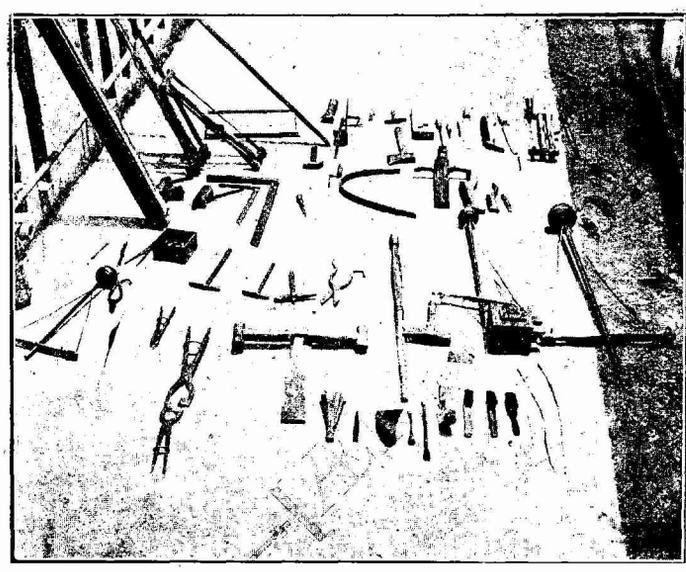
Sawing the bone.

倫 美

The trade mark or "Chop" of the Mei Ren Company, a literal translation of which is "American Friendship"

urgent cables from China for rush orders of shin-bones and the orders kept up until it is said that the great American beef barons have neglected their sausages and porterhouse steaks in order to supply Shanghai with shin-bones for the manufacture of Ma Chang. Even the elephants down in India and Siam are said to be in a panic due to the threatened raid on their protruding front teeth because of the demand for ivory sets.

But this didn't help much. A Chinese manufacturer who has always operated a one room shop just like his forebears did, is a pretty difficult problem when it comes to pursuading him that he should double, quadruple and octuple his output. It simply couldn't be done and the buyers shed bitter tears for it was reported in the papers that prominent New



Tools used by workmen in the factory.

York bankers and members of the Consortium were neglecting their seats on the stock exchange because of their inability to get a precious set of Ma Chang.

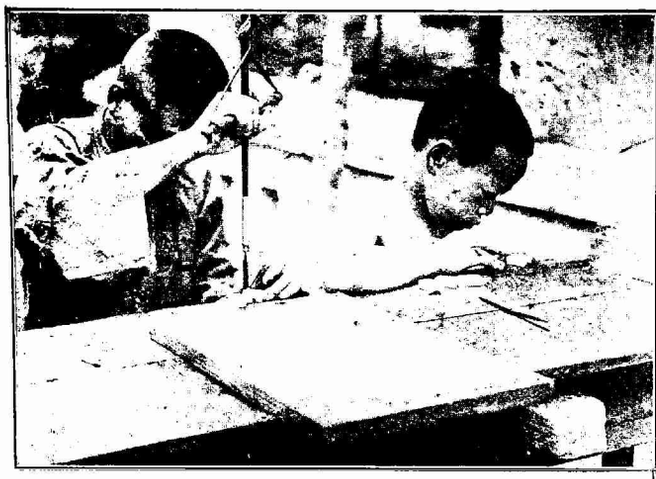
Enterprising foreigners in Shanghai tried to start factories, but to no avail, for skilled workers refused to be enticed away from the benches of their fathers. The Ma Chang skies remained overcast until—until—and here comes the climax:

If the laborers will not leave their little factories, why not move the whole factory? This was the clever idea possessed by a little group of Americans and Britishers in Shanghai and a few months ago they did just this thing and the pictures illustrating this article were made by Mr. Varges of the *International News* last week in the factory of the Mei Ren Company located in Paoshan just beyond Hongkew park in Shanghai. This interesting enterprise which has developed in a few short months to the place where it employs more than 400 skilled laborers is really a combination of more than a dozen little Ma Chang factories all gathered together under one roof and provides an interesting example of what Western ingenuity can accomplish in China when it really tries.

The writer was permitted to visit this factory a few days ago in the company of L. C. Solomon and M. D. Silas, two of the proprietors and the following is an inadequate description of this new Shanghai industry which has been developed in a very brief space of time to provide the product for a new American "demand" upon China.

Undoubtedly the most interesting element in this factory, as in all factories, is the labor. Practically all of the 400 and more workers were brought to Shanghai from Soochow, Wenchow, Hangchow, Yangchow and Ningpo in small groups and before they consented to leave their home surroundings it required much persuasion—of the kind common to China. Briefly, it required much silver in the form of Yuan dollars. It was necessary to guarantee each man a certain income (everything is done by piece-work) and it was also necessary to provide railroad fare to Shanghai and return if desired and then it was found to be still further necessary to provide both food and lodging in Shanghai at the factory and then it was found that a "bonus" ranging from $50 to $100 per man was still further necessary in addition. But it was all accomplished and this modern Ma Chang factory is an accomplished fact in spite of the grumblings of the reactionaries who said it couldn't be done.

Descriptions of technical processes are always uninteresting to the general reader, but since this deals with a new and exceedingly interesting subject, we venture a few lines. In the first place it requires ten operations of the cabinet maker to produce a Ma Chang box, or rather the attractive little brass decorated cabinet with drawers that contains the bone and bamboo tiles. These operations are all performed by groups of men who do just one thing, from the original sawing of the Chinese red wood logs into thin boards to the artisans who affix the brass handles and ornaments. In case the set is a "special" to meet the whim and pocketbook of a highly discriminating purchaser, further operations are necessary such as highly skilled wood carving and the work of the brass-smith. The deep rich dark-red coloring on the boxes containing the standard sets is produced with a Chinese paint popularly called "pig's blood" and is applied with a rag held in the hand instead of a paint brush. But why waste time describing the box when we are interested in the fascinating contents!



Engraving and drilling "circles."

First it should be stated that this is a "complete" factory for the reason that every operation from the manufacture of the box to the packing of the "sets" is done here, with the single exception of the rectangular pieces of bamboo which form the backs of the tiles which are purchased outside from a bamboo dealer who guarantees that his product has been dried and seasoned for at least 18 months. The first operation which greets the eye of the visitor is the operator of a primitive saw who takes the pieces of shin bone which previously have been bleached to a snowy whiteness, and saws them into pieces about 1½ inches in length. Then next to him are a number of other gentlemen with iron chisels in hand who deftly split these pieces into two or three sections. The chisel and a block of wood are the only tools used here. Then another group of artisans take these little sections of bone and shape them roughly into flat

Dove-tailing the bone and bamboo.

pieces. These pieces of bone are then graded as to thickness, for you probably discovered when you purchased your Ma Chang set, that the price is determined largely by the thickness of the bone "face" on the tiles. This is due to the fact that the average shin bone only yields one or two "thick" pieces, the remainder being average or 1/8 inch, 3/16 inch and ¼ inch in thickness.

The next operation is the difficult one of dove-tailing the bone face into the flat side of the bamboo which forms the back of the tile. To see the primitive tools which consist of a file and a hammer, one would never suspect that such a fine job of joining could be accomplished, but with one or two operations preformed so quickly the eye can scarcely follow, the job is finished. The "dove-tailing" or as sometimes called "tongue-and-grooving" is done by filing the "tongue" in the bone and the "groove" in the bamboo. Then the two pieces are forced together so closely that the seam is practically invisible. Another operator then takes these rough pieces of bone and bamboo and smooths down the edges by filing off the protruding edges of bone. After this operation the little rectangles, now exactly 1¼ inches long and 7/8 of an inch wide are placed in a frame for polishing.

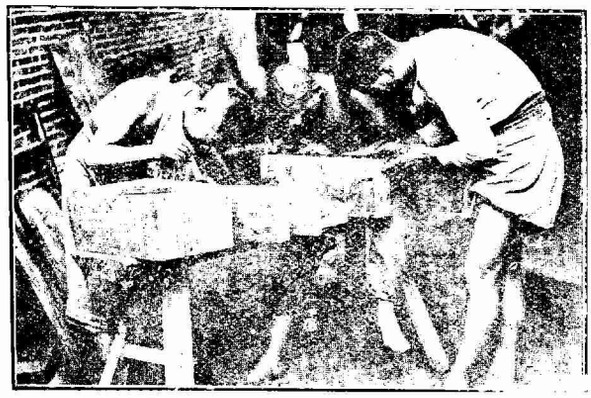
And the polishing—again primitive methods produce a fine result. With a piece of sand paper, the first roughness is removed. Then a piece of skin from some sort of fish which has a fine rough surface is used to take off the next coat and finally a piece of

Polishing the "tiles."

rush or species of marsh-growing plant is used for the finishing operation which produces the fine polished surface so pleasing to the finger tips of milord or milady Ma Chang player. Here the tiles are again regarded as to thickness.

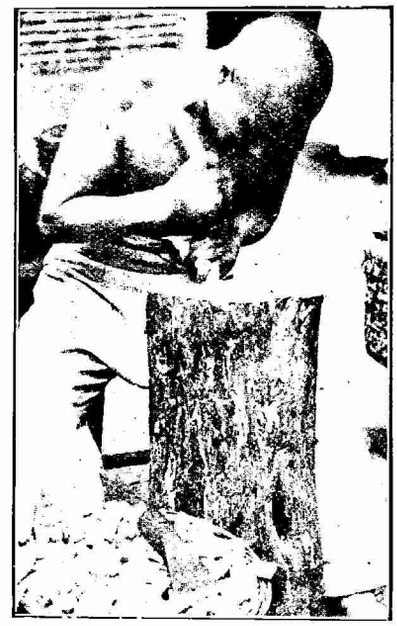
Now comes the engraving and with the exception of the making of the "circles" which is done with a drill or primitive auger the engraving of the "characters", "bamboos," "winds," and other tiles is done by hand, mostly by boys ranging in age from twelve to eighteen. Each boy does one figure and is known in factory language as a "circle-maker," "bamboo-

Sawing bone off the edge of "tiles."



engraver," and so on. Following this operation comes that of coloring. Native colors, red, purple and green are used and they are applied by roughly daubing the entire face of the tile with the colors desired. Then the face of the tile is wiped with a cloth and then scraped with a fine chisel. The coloring only penetrates where the bone has been engraved, thus producing the attractive face of the tile. The final process of assembling the sets and packing need not be described. Each set packed by the Mei Ren factory contains 150 tiles, the extra ones being blanks for use in case some become lost. There is also included the bone sticks used as counters, two or more dice and the four discs called the "Chwang Tze" the use of which is fully understood by every devotee of Ma Chang.

The Mei Ren Company now has its factory up to a daily production of 75 sets or about 2,500 a month. The investment is said to be well above 100,000 taels and plans are said to be afoot for doubling the entire enterprise and raising the production to 3,000 or 5,000 sets a month. The company has received several offers from wholesale dealers in the United States for the purchase of its entire output for periods ranging from 18 months to two years. It is understood that these offers have been declined, but that they have been responsible for the decision to increase the monthly output to 5,000 sets. And well may they plan extensions for the "fad" of Ma Chang has now apparently become a permanent institution to the extent that it is reported upon no less an authority than the registrar of Columbia University of New York, that many of the 2,000 Chinese students in America have been drafted away from their studies of political science and higher mathematics to the more interesting job of teaching Ma Chang to the Americans.



Left—Close-up view of flattening bone.

Upper Left—Sawing and splitting bone.

Left—Marking portions of log for cutting boxes.

Right—Close-up view of engraving and drilling.

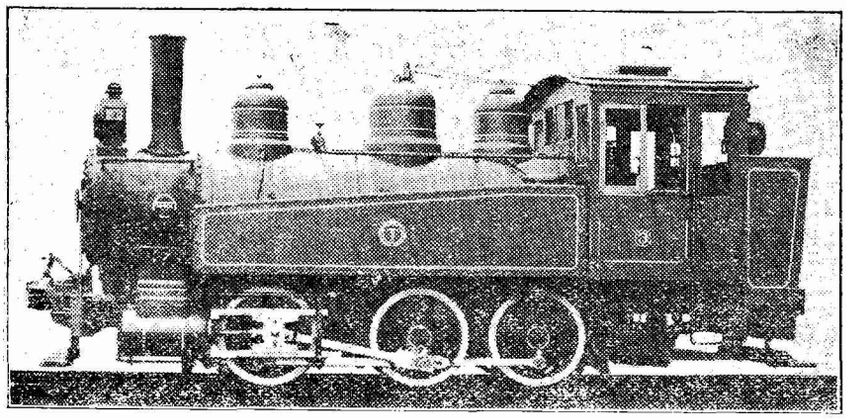
One interesting and amusing phase of the popularity of Ma Chang in the United States came from a rumor which gained wide circulation that each of the various Chinese names employed by various importers referred to a different game, or in other words, the Chinese played several kinds of Ma Chang. This dispute waxed hot and furious and according to gossip frantic appeals were made to the Far Eastern Division of the State Department. It is reported that Mr. John V. A. MacMurray, chief of the Division and one of the technical advisers to the Washington Conference, spent many weary days poring over the archives of the American foreign office from the days of the late John Hay clear on down through Robert Lansing and Bainbridge Colby to the dynasty of Charles E. Hughes but had to give it up. Then the Chinese Legation was appealed to and none other than His Excellency, Dr. Sao Ke Alfred Sze, Minister Plenipotentiary and Envoy Extraordinary from the Republic of China to the United States of America settled the matter for all time by issuing an unofficial statement to the effect that there is only one Chinese Ma Chang game, call it what you will. And don't forget that Dr. Sze spells his name "S Z-E" just like the founder of the game back in the old village of Ningpo in the province of Chekiang and the period of time corresponds to that of King Tut-ank-amen who doubtless was also familiar with the game.

J. B. POWELL

These Chinese characters which mean "Play Ma Chang" appear on the outside of the boxes containing sets manufactured by the Mei Ren Company.

BALDWIN

SIX-WHEELED SWITCHERS



SHUNTING ENGINE BUILT FOR HOKKAIDO KOGYO, K. K. (Japan)

Gauge, 3 feet, 6 inches
Cylinders, 13 inches x 20 inches
Working pressure, 170 pounds
Fuel, soft coal
Driving wheels, diameter, 40½ inches
Weight, 72,700 pounds.

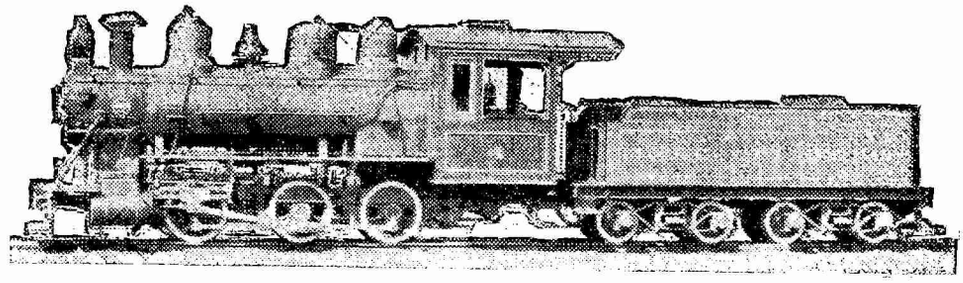
FOR light railway switching work, and especially where conditions call for narrow gauge and light track, the switching locomotives illustrated meet all requirements.

The locomotive equipped with tender, is adaptable for general work, either on long or short hauls. Both types of locomotives are easy on tracks and over light bridges.

We build light railway or industrial locomotives either to our own designs or to any specifications furnished.

BUILT FOR LIU CHANG COAL MINING & RAILWAY CO., CHINA

Gauge, 2 feet 6 inches
Cylinders, 12 inches x 16 inches
Working pressure, 160 pounds
Fuel, coal
Driving wheels, diameter, 33 inches
Weight, engine, 40,700 pounds
Weight, engine and tender, 76,000 pounds



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In the meantime General Teng Hsih Hwo, and his cohorts (badly thinned in numbers) are trying to come back from Paoning. Their attempt was apparently timed to coincide with Yang's Drive. But they will not dare to attempt much with him on his way back to Chungking. In the meantime a former popular General, named Lu Ts'ao, who was Governor for a few days some years ago, has returned to Szechwan to support Hsiung Keh Wu, and some of his adherents are in the armies of Yang Seng. So there is bound to be disaffection there.

On the whole it now looks as if the Northern plans were failing utterly. Troops are coming, so we learn, from Yunnan, or Kweichow to assist Hsiung Keh Wu, if he needs their help. But with, or without, outside help he has probably won. In the meantime we continue without a government. The Foreign Office sent word to the Consuls that they would not be responsible for foreigners travelling anywhere, to summer resorts, or other places. The Consuls objected and sent word back to that effect. They were then informed that there was no Foreign office. Everything is closed up.

Word comes from Tatsienlu that the city of Batang has been captured by Tibetans. It has not been confirmed. Tatsienlu, itself, is in a serious condition. There is no telling what the future will be for them, or for us.

John R. Muir.

Chengtu, Szechuen, June 11, 1923.

The Week in the Far East

(Covering the period from Thursday, June 21, to Wednesday, June 27).

In Chinese affairs the developments during the past week concern the complete deadlock prevailing in Peking, the withdrawal of recognition from the present Peking government by the Shanghai General Chamber of Commerce, the release of the Chinese captives in Paozuku, taken captive with twenty-seven foreigners on the night of May 6, the reported reverse of Dr. Sun Yat-sen in the South, the downfall of Yang Sen in Szechwan. It would almost appear China is as near to her political crisis as ever before in her history. Russia and Japan, according to reports, seem about to resume their former trade relations on a mutual understanding while the Philippines maintains an even tenor with nothing of importance to report.

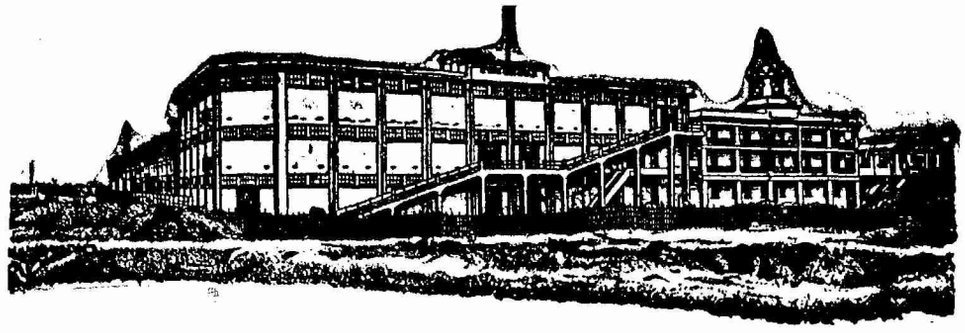
The Situation in North China

Peking at this stage is experiencing a complete deadlock, there being only three Cabinet Ministers continuing, the Ministers of Navy, Communication and Interior, since the flight of President Li Yuan-hung. The police in Peking have tried to prevent the members of parliament from leaving Peking, since more than two hundred legislators who are not affiliated with the Chihli faction left Peking on June 23, for Tentsin. The Parliamentarians assert that Peking is dominated by the militarists and that they, therefore cannot function, and most of them deem it advisable to move further and make the conference grounds in Shanghai. A reliable report carried states that the Presidential election will take place on July 26, and in the meantime the legislators will attempt to complete the drafting of the constitution. Tsao Kun's special representatives have already arrived in the Capital to look after the financing of his campaign. A summary of the situation as it exists there was contained in a report in the *North China Daily News* of Tuesday, June 26.

"A close friend and supporter of Tsao Kun, who has been interviewed, says that all the alleged telegrams from Wu Pei-fu quoted in the native press, endorsing Tsao Kun's election as President or condoning the recent antics of the Tientsin party, are forged. He admits that Wu Pei-fu is opposed to Tsao Kun's election and points out that his silence is a clear indication of his opposition, because, if Wu were supporting Tsao, he would make an open declaration to that effect; but if he is opposed, he will not denounce his friend Tsao Kun.

"This information also says that Tsao Kun himself states flatly that he will not be railroaded into office by the Tientsin party and that he will not take the position of President unless he is properly elected, which is now impossible, because, even with a quorum in Parliament, a large percentage of the members are now opposed to Tsao and are only staying in Peking in order to avoid being classed with those in Tientsin who are agitating for another government in Shanghai or Hangchow, which, say the opposition members, would mean three confusions instead of two.

"Dr. Wellington Koo will not join the three-Minister Cabinet until he is persuaded that Wu Pei-fu is not opposing Tsao Kun's election, because he is unwilling to risk his career and join a government doomed to immediate collapse through the disintegration of the Chihli (*i.e.*, Tsao Kun) party.



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"Therefore Dr. Koo is not likely to join the government at all, since Wu Pei-fu's attitude must soon be manifest.

"President Li Yuan-hung's agent, returning from Mukden, reports complete failure of the attempt to persuade Chang Tso-lin to give support to the President. Tuan Chi-jui activities are entirely in the hands of Fu Liang-tso and Ting Chin, who do not enjoy the confidence of local political circles. Therefore it is unlikely that there will be any great migration to Hangchow.

"Thus there is a complete deadlock, without any visible solution, unless the Tientsin party in desperation engineer another *coup*, which many anticipate, inasmuch as General Feng Yu-hsiang, Wang Huai-ching and the self-styled Cabinet find themselves in a political *cul-de-sac*."

Chinese Captives Released

The Four Power Diplomatic Commission, (Britain, America, France and Italy) are expected to deliver the Lincheng reparations programme to the Doyen of the Diplomatic Body soon by whom it will be given to the government.

With regard to the Lincheng outrage the recent developments in the bandit affair has to do with the important announcement of June 24, stating that all Chinese captives captured in the raid on the Tientsin-Pukow express last month were released. Another report in this connection emanating from Legation quarters told of the demands that the Powers would impose upon China as indemnity to captives. Among the Chinese released included the following, which report, also told of the details of the liberation:

"Among them are Messrs. Tsin Shih-tseng, Tsin Chin-yuan, Wu Shao-pu, Chuang Chih-chien, Tsao Sheng-cow, Chiao Chi-chin, Liu En-yu, Chuang Chuen-sheng, Chien Kang-chi, Ma Shao-chow, Chang Hua-chien, Chao Yi-tsang, Shen Shiu-tien, Wang Yiu-hsun, Li Yung-kwei, Wang Tu, Yen Pao-tsai and Shi Chung-shiu.

"Their liberation was due to the intervention of Sun Mei-yao, the bandit chieftain, who has been commissioned Brigadier Commander. Sun protested to the other brigand leaders against their intention of detaining the Chinese victims for ransom.

"Sun told Mr. Chiao Chi-chin shortly before the latter's release, 'I am determined to effect the liberation of the Chinese prisoners. It would be a shame if we liberated the foreigners without demanding payment but we should now insist upon ransom in the case of Chinese captives. Now that we are no longer outlaws, we will render services to the country.'

Mr. Chiao said that an hour later, a bandit came to his camp with the order that the prisoners were to leave Paotsuku with the official delegate, Mr. Wu Chang-chih.

"It is yet unknown when the other captives held before the Lincheng outbreak will be released. The officials declare that it will not be long before the remaining prisoners are set free. The detachment of reorganized bandit-troops under Kuo Chitsai has left the bandit stronghold and is stationed at Kuolichih, about three miles from Tsaochuang. The bandits in their new uniforms present a smart appearance.

"Sun has issued an order prescribing capital punishment for anyone who shall steal even an ox from the villagers. One of his cousins was shot yesterday for holding up a woman."

The Demands to be imposed on China by the Foreign Powers, according to the report, include:

"1. Reparations for material damages incurred by the foreign captives as per statements.

"2. The sum of $100,000 to be paid to each victim as compensation for the mental agony suffered during the period of captivity.

"3. Indefinite postponement of the investigation by the International Commission of Jurists into China's judicial system and judicial administration in connection with the proposed abrogation of extraterritoriality.

"4. The status of the International Mixed Court at Shanghai to remain the same.

"5. Mixed Courts to be established in other foreign Settlements or Concessions.

"6. Foreign troops to participate in the patrolling of Chinese railways.

"7. The dismissal of the military and civil governors of Shangtung together with the minor officials responsible for the outrage."

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A Proposed Peace Conference for Shanghai

Following the flight of some 200 legislators from Peking to Tientsin, and the passing of the resolutions by the Shanghai General Chamber of Commerce, wherein the merchants withdraw recognition of the Peking Parliament, Shanghai is likely to be the scene of a Peace Conference, between political leaders from North and South China. On June 23, the Shanghai General Chamber passed a set of important resolutions withdrawing recognition from the present Peking Cabinet and Parliament. The resolutions follow: 1—The Peking government is unlawful. 2—The Parliament at Peking will not be recognized. 3—The constitution must be drafted by the people of China in general. 4—Various parties in Shanghai recommend the calling together of the prominent men of the country to make a constitution. The Chamber held another meeting recently and an important statement was given out concerning the peace of Eastern part of China, which was made by Fu Siao-en, a well-known Ningpo merchant, who is managing director of the Commercial Bank of China and the China Merchant's Steam Navigation Company. Mr. Fu stated that after approaching the Military Governors of Kiangsu, General Chi, Shieh-yuan, Chekiang General La Yung hsiang, and Shanghai General Ho Feng-ling, and urged them to unite for the protection, peace and safety for the eastern section of China at this time of political crisis. While the Generals have not given their consent it is hoped that they will meet in Shanghai in conference with the hopes that a better understanding will result. If the rumor becomes realistic and successful, it will put an end to the many reports of fighting to take place between the Tuchuns at Nanking and Hangchow, in which Shanghai would be involved.

Yang Sen Driven Back in West China

If reports are true Yang Sen, one of the leading Generals in Szechwan, is being driven back from Chengtu and has been defeated. Since the foreign element in Chunking and west China have relied on the efforts of Yang Sen to keep peace in that area, the shock comes as a great surprise to many in that vicinity. It is reported that he was driven back to a place fifty li from Chengtu, and has evacuated Tsechow which is four days east of Chengtu on the Chengtu-Chungking Road. It is explained in one report that he used no Northern troops in fighting but used them as a protection of his lines of communication. The defeat it is thought is due to the fact that two Szechuanese Generals who were aiding him, refused to fight after the battle started and because of this treachery he was defeated. It is expected that Hsiong Keh-wu, the opposing General had a hand in this.

Bandits at Large in China

The daily press continues to be filled with reports from all parts of China depicting the deplorable state of China relative to her bandits, who not only attack Chinese citizens but foreign citizens who travel from place to place. Bandits in Manchuria, have attacked a train during the last week or so. Reports come from Chientao that the Korean border is again the goal of some bandits in that area. The likin barrier at Pingshengpu near Ichang has been captured by bandits walking off with month and goods. Residents of Kuling have also received threatening letters from leaders of bandit gangs telling of proposed raids. An urgent letter has been sent to headquarters asking that special protection be given to this district with the oncoming rush of foreigners to the resort this summer. Father Mulatto, the Italian priest is still being held along with Chinese captives in the temple. At Yingcheng, near Hankow four Chinese chiefs have been imprisoned and it was rumored that the priest and Chinese would be released as in exchange for the other bandit prisoners.

Dr. Sun Yat-sen's Reported Reverse

The news coming from Canton during the past week shows that Dr. Sun's troops, as a result of heavy fighting, have not come out as successful. The public seem very pessimistic over Sun's prospect in the fighting which goes on from time to time. Following this Dr. Sun summoned all leading persons together and held a conference and has recently wired to members of parliament in Peking to come to Canton for a general conference. The response to this telegram was met with one from General Lu Yung-hsiang, and Chang Tso-lin, urging that a unanimous opposition should be raised to the assumption of the Presidency by Tsao Kun. Dr. Sun was interviewed recently by a representative of the *Eastern News Agency* wherein he made a statement to the following effect:

"So long as militarists in the North dominate, the resignation of Li Yuan-hung, and the confusion of the political situation in Peking were inevitable, which reveals the

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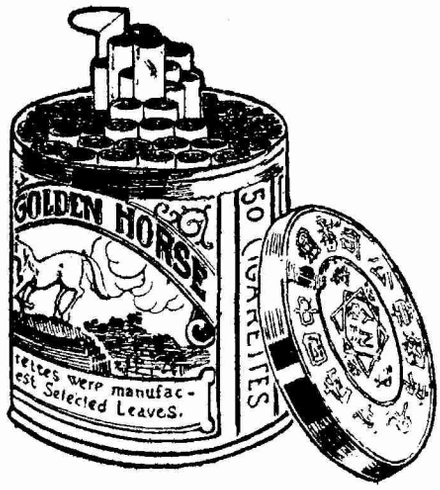

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25-190

incompetence of the Peking government and the intrigues of the militarists. In these circumstances, it is impossible to look forward to the peace and unification of China. The urgent necessity of the moment for China is to overthrow the militarists so that she may bring about peace and unification.

Question of Intervention

"Though foreigners severely blame the Peking government for the Lincheng incident and are now insisting upon the joint control of China, it is open to doubt whether the Powers will be able to control this country to their satisfaction. If the Diplomatic Corps and the people of China should put me in the President's Office, I have already a plan up my sleeve. I am giving thought to the question of establishing the Presidential Office in Canton, and this question may probably materialize when an occasion offers itself.

No Burying of Hatchet

"In spite of the fact that there are those who circulate rumours that I have effected an understanding with General Chen Chiung-ming, this is a matter of which I have not the least knowledge. I have still a firm resolution to expel Chen Chiung-ming and thus to bring tranquillity to Canton as soon as possible. I will once again proceed, in a day or two, to the East River district, when I will command the constitutionalist troops, with a view to clearing Kwangtung of enemy troops."

Russia and Japan

The tense situation seems to be clearing up between Japan and Russia with a mutual sacrifice of minor claims. The general opinion in Japan at the present time seems to be in favor of a resumption of commercial relations: *Reuters* carried an important account relative to the Soviet and Nipponese government:

"The announcement of M. Joffe's formal appointment by the Moscow government as Soviet plenipotentiary in the preliminary pourparlers with a representative of this government has revived public interest in the question of restoring commercial relations with Russia.

"The possible outcome of these preliminary negotiations is discussed by the leading Tokio journals this morning, all of which agree in the opinion that the conversations about to begin afford more ground for hope than that the outstanding questions between the two countries will be satisfactorily solved.

"Several of them, notably the *Jiji*, emphasize the advisability of a mutual sacrifice of minon claims and conditions in order to reach the desired conclusion.

"The *Jiji* claims to have learned from an authentic source that the government, in the belief that the re-establishment of friendly relations with Russia will be of benefit to both countries, enters upon these discussions with a sincere desire to reach a basis of agreement that will pave the way for the opening of a formal conference with Russia.

"The Metropolitan Police authorities have decided to attach a special guard to M. Joffe, who has been recognized now as the representative of the Soviet Administration.

"The discussions between Russia and Japan on pending questions, principally that of Saghalien, have been resumed on a basis of mutual concessions. Prompt *de jure* recognition of the Soviet is prognosticated."

GENERAL NEWS SUMMARY

June 21. A mass of lava 800 yards wide and 80 feet deep engulfs valley in Italy, at Catania, and advances a yards minute, destroying many villages as it goes.——French report says French people prohibit the transport of coal into the Ruhr Vulley.——Prominent Jews of New York undertake nationwide organization, the purpose of which is to arouse sentiment against the nomination of Ford for President.——U. S. Circuit Court of Appeal confirms forfeiture of British schooner, the first alleged rum-runner seized outside the three mile limit.

June 22. President Harding accompanied by Mrs. Harding leaves on two-month tour including visits to Alaska, British Columbia and Panama.——British liner leaves Southhampton for New York with moderate supply of liquor in sealed chamber to be used on homeward trip.

June 23. President Harding in address at St. Louis, Mo. says League of Nations is as dead as slavery in U. S. but urges U. S. to participate in International World Court.——Washington report says Hughes and Mellon decide to seize

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all ship's liquor brought in three mile limit.——Lava flow at Etna, causes air to be full of smoke, however, the flow is less.——Many Cabinet shifts are predicted in London, according to report.

June 24. Thousands of residents of New York city flee to surrounding resorts and country to escape one of greatest heat waves felt for years and which has resulted in death of 100 people.——Seizure of rum on the ship *Bernegaria* is postponed while crowds of people await at waterfront in expectation of seeing Federal officials act.

June 26. French newspapers state that Germany's latest semi-official note is calculated to make negotiations a success and comment on the fact of German economic activity and her depreciation of currency to enrich herself.

June 27. Industrial condition in the Ruhr Valley is growing more serious owing to increase in number of unemployed. ——In Brooklyn, U. S. two-car train fell from elevated railway, killing twelve people and injuring eighty.—Rumanian Minister of Finance is in Paris discussing question of reparations, as well as to advertise the economic riches of Rumania.

Weekly Cotton Market Report

By A. B. Rosenfeld & Son

China Cotton:—During the early part of the week, the cotton market has declined some half a tael in sympathy with the heavy drop in Mid-Americans. At the close, however, the undertone was steady.

As to the crop outlook, evidence has been accumulating that the long period of favorable weather which has prevailed practically throughout the Belt, has been instrumental in bringing about a marked improvement in its condition. Whatever the outturn may be, it will be hinged on future "weather" developments.

From the above, it will be seen that whatever views are entertained as to the ultimate course of prices, a conservative policy appears to be desirable for the immediate future. The situation continues to be governed by the progress of the crops, which will be the chief basis for important price changes from now on.

Yarn.—We have no change to report in the position of local yarn market, prices ruling the same as last week. At the close, the market was weak. Business for export has been booked some 4,000 bales in all counts at ruling price. From present indications, we look for steady markets in the near future.

Liverpool, June 21, 1923.

Liverpool Market:—

Middling American, Spot		16.34	Pence
"	" July	14.82	"
"	" October	13.40	"

Market:—*Steady.*

New York, June 21, 1923.

New York Market:—

July	27.20	Cents
October	24.80	"
December	24.26	"
January	23.96	"
March	23.97	"
Spot	28 50	"

Market:—*Firm.*

Bombay, June 21, 1923.

Bombay Market:—

Broach, F. G. July/Aug	Rps. 533	per Khandy
Fully Good Bengal, July	" 437	" "
Fine Oomra, Dec./Jan	" 438	" "

Market:—*Firm.*

Shanghai Market:—

Tungchow, Spot	Tls.	41.00
Shanghai, Spot	"	37.50
M-ginned, Spot	"	38.00
Taichong, Spot	"	39.00
Shensi, No. 1 Spot	"	40.00

Market:—*Steady.*

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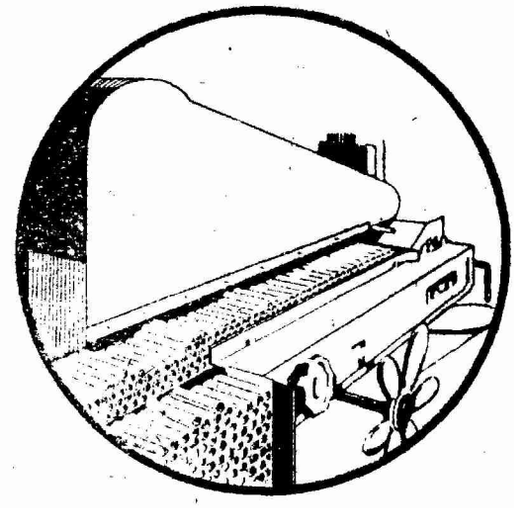

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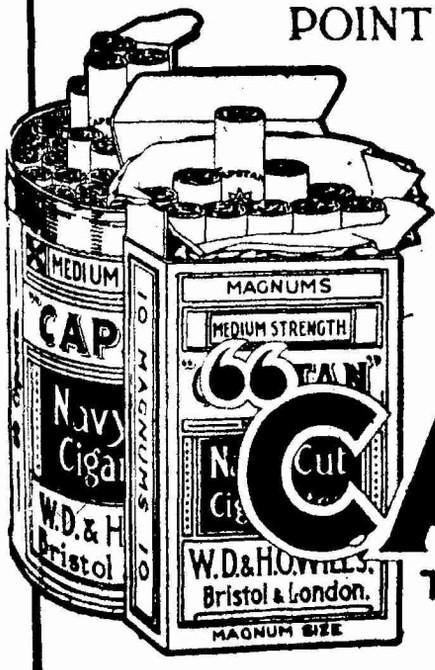

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Shanghai Exchange for Week Ending Wednesday, June 20th

By Maitland, Fearon and Brand

Exchange:—The London price of silver at 32d is ¼d. higher than last week price for two months forward delivery is quoted 31 $\frac{9}{16}$d. After touching 3/1¼ the quotation for T/T on London is to-day down to last week's closing rate 3/1¼d. locally is easier and bar silver to the extent of over Tls. 2 000,000 is due before of the month, with a further Tls. 1,500,000 due early in July. The demand remittance of Gold T/T exceeds the cover offering and our market is only steady delivery, and weak forward.

Our stocks of silver are reported as follows :—

Sycee and Bar Silver .....Tls. 22,444,000 an increase of Tls. [illegible]

Chinese and Mexican Dollars..... $ 34,730,000 an increase of $ 1,000

Estimated value Tls. 47,449,000 as against Tls. 50,840,000 held at this time last

†	Average rates for June	Thursday June 14	Friday June 15	Saturday June 16	Monday June 18	Tuesday June 19
Bk's selling rates		*opening closing*	*opening closing*	*opening closing*	*opening closing*	*opening closing*
T/T London	3/2.211	3/1½	3/1½	3/1⅝		3/1¾
D/Dtts. ,,	—	3/1⅝	3/1⅝	3/1⅝		3/1¾
4m/s ,,	—	3/1¾	3/1¾	3/2		3/2
T/T India	236.432	232½	232½	234		234
T/T France	1,110.385	1130	1130	1150	BANK HOLIDAY	1175
T/T N. Y.	73.668	72	72	72½		72¾
T/T H'kong	74.000	73⅝	73¾	73⅝		73¾
T/T Japan	66.750	68¼	68¼	6/⅝		67⅝
T/T Batavia	191.635	188¼	188¼	189½		189½
T/T Straits	73.808	75	75	74½		74½
Bk's buying rates						
4m/s B/L. Cred. D/A	3'4.211	3/3½	3/3½	3/3¾		3/3¾
4m/s ,, D/P	—	3/3⅝	3/3⅝	3/4		3/4
6m/s ,, D/A	3/4.711	3/4	3/4	3/4¼		3/4¼
4m/s B/F. C., D/A, D/P	1,160.385	1180	1180	1200		1225
4m/s N.Y. Lc.	77.707	75	75	75½		75½
4m/s ,, Docs	—	75½	75½	76		76½

†Based on Daily Official quotation, higher rate taken on rising Market, lower when falling	June 14	June 15	June 16	June 18	June 19
Bullion.					
*London Price of Bar Silver per oz. (English Standard 925 touch) Pence.	31⅜	31⅜	31 $\frac{15}{16}$	32 $\frac{1}{16}$	32 $\frac{1}{16}$
**N.Y. Price of Bar Silver per oz. (Pure)	G. $. 65⅛	G. $. 65⅛	G. $. 65⅜	G. $. 65⅞	G. $. 65⅝
Shanghai Price of Gold Bars (weight Tls. 10 (Chauping) 978 touch	Tls. 325.60	Tls. 326.40	Tls. 326.20	HOLIDAY	Tls. 326.40
Shanghai Silver Bars (weight Tls. 100 (C.) 999 touch)	111.00	111.00	111.00		111.00
Shanghai Mexican Dollars per $100	71.9375	71.9875	71.925		71.8625
Native Bank Rate of Interest (Callmoney)	2⅛%	2%	2⅛%		2%

*Closing Price in London for Previous day.
**Closing Price in New York for Previousday

Bank of England rate of discount	3%	London on Paris	T/T
Bank of France rate of discount	4½%	London on Germany	T/T
London open Market of rate Dis. 3 m/s.	2 $\frac{1}{16}$%	New York on London	T/T
,, ,, 4	2 $\frac{1}{16}$%	Bombay on London	T/T
,, ,, 6	2 $\frac{5}{16}$%	Hongkong on ,,	T/T
		Yokohama ,, ,,	T/T

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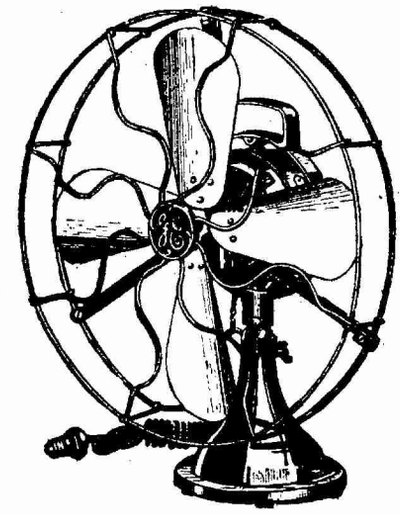

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Wong Wen-kuang,
Manager.

New Books and Publications

China in Disorder

The Present State of China. Being a series of articles by H. G. Woodhead, C. B. E., reprinted from the Peking and Tientsin Times, April 1923. Tientsin Press, Ltd.

MR. Woodhead has done a piece of work which places us in his debt. This pamphlet of less than one hundred pages presents the clearest and most tellingly critical account of China at the present day that has appeared of late. Few statistics, no theories, patriotic hopes or friendly aspirations take up space or the reader's time. No discussion as to the innate, and undisputed, strength of the Chinese people; their long, long history; their origination of all the inventions which Westerners have merely brought to a state of perfection; their "rights as a Sovereign people," or their just claims to "territorial and administrative integrity" find a place in this discussion. Only a series of cold facts concisely stated is offered. The "lip-service" loyalty of selfish politicians is scored. The Central government, Insubordination in the Provinces, The Army, Public Justice, Education, Communications, Finance, Opium, The Merchant Class, and the possibilities of the future are the topics discussed.

The writer's style is clear, and his point of view is as unprejudiced and impartial as one is likely to find in any discussion of live topics—particularly those connected with the political and economic questions of the Far East. The work under discussion can be read in an hour or less, but the material will bear many hours pondering. Inasmuch as the booklet is easily accessible, and quickly read it is best not to go into details: suffice it to say that the students, the politicians, the merchants, as well as the foreigners resident in China will do well to procure a copy of Mr. Woodhead's facts and reflections to read, and preserve for reference.

H. F. M.

American University Club of China Lectures, 1921-1922. Edited by George E. Sokolsky. Published by The Commercial Press, Ltd., Shanghai, 1922.

FOUR lectures delivered during the two years past under the auspices of the American University Club of China, being part of a series of what is deemed "ought to be known about China," are contained in a neat little volume just put on the market by the Commercial Press. The lectures are printed in consequence of a policy adopted for broadening the activities of the University Club, and George E. Sokolsky, as secretary of the policy Committee, has edited the first four of the series of which more lectures are promised.

Dr. F. L. Hawks Pott in "A Brief Sketch of Chinese History" furnishes the average foreigner coming to China with the brief essentials which one desires and needs without going deeply into the confusing maze of facts and names with which most histories of China confront one.

Professor Hu Shi, well to the front amongst China's linguists and philosophers, presents a remarkable exposition of the nature and history of China's national language. He predicts ultimate success for a single language throughout China in the not too remote future. Professor Shu argues most logically that the language will prove a most simple vehicle of expression since it has had thousands of years for natural and unstudied development, whereas many languages through nationalization in an early stage have been restrained from natural simplification and are accordingly stultified.

"The Geography of China" is a lecture delivered by Dr. Robert Fitch, who has established the reputation of being one of China's foremost geographers. He deals most interestly with the formation of China, the climate, and the composition of China's rich mineral content.

Dr. C. T. Wang, on "The Fight for a Constitutional Government in China," very ably analyzes the troubles which have beset China politically since the revolution. He traces the endeavor to impose a strong central government on the provinces by means of military chiefs who, invested with power, have refused to recognize the central authorities who placed them in power. Appended to Dr. Wang's lecture are several appendices of constitutional documents, of central and provincial governments, in which may be seen the aims of the republic if not the accomplishments.

R. B. L.

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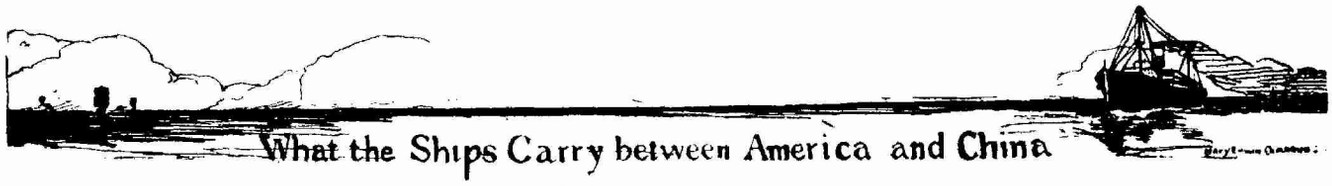

What the Ships Carry between America and China

Returns of the Shanghai Customs

(*Key: Pls.—1 Picul or 133 1/3 pounds; Bls.—Bales; Pcs.—Pieces; Mills—thousands; Hk. Tls.—Haikwan Tls., Customs Rate Tls. June 1.21 equal Gold $1*)

S. S. Kendal Castle, from U. S. A., May 29.

Iron Tacks	Pls.	9
Iron, Galvanized:		
Wire Shorts	,,	840
Gheese	,,	6
Dextrine	,,	540
Grease	,,	138
Ink, Printing	,,	15
Leather, Sole	,,	19
Leather, Enamelled	,,	4
Oakum	,,	18
Packings, India-rubber	,,	3
Paints, Unclassed	,,	26
Paper, Unclassed	,,	27
Soda, Nitrate of	,,	180
Tobacco, Leaf	,,	3,186
Wax, Pafaffin	,,	749
Organs	Pcs.	17
Skins, Beaver	,,	68
Skins, Fox	,,	450
Skins, Unclassed	,,	422
Oil, Lubricating	Galls.	7,007
Rum	,,	7,501
Machinery	Hk. Tls.	19,586

S. S. West Keats, from U. S. A., May 28

Bones, Cow	Pls.	138
Timber:		
Softwood, Ordinary Sawn	Sup. ft.	537,925
Softwood, Clear	Sup. ft.	22,950
Softwood, Merchantable	Sup. ft.	58,966

S. S. M. S. Dollar, May 30, 1923, from U. S. A.

Copper Sheets	Pls.	15
Iron Bars	,,	1,415
Iron Washers	,,	272
Iron Wire Shorts	,,	602
Iron, Galvanized:		
Wire	,,	859
Iron Bars, Old	,,	1,415
Tinned Plates, Plain	,,	2,026
Cement	,,	495
Cotton, Raw	Bls. 250	882
Indigo Paste, Artificial	Pls.	3,209
Tobacco, Leaf	,,	1,149
Wax, Paraffin	,,	3,066
Oil, Lubricating	Galls.	35,898
Oil, Kerosene, in Cases	Galls.	970,780
Dyes, Aniline, Pkgs.	Hk. Tls.	7,816

S. S. Korea Maru, June 8.

To Boston.

Wool, Sheep's	Pls.	105

To New York.

Silk, Raw, Steam Filature: White, Shanghai, Bls. 35	Pls.	34.67
Silk, Raw, Filature: Wild, other Ports, Bls. 21	Pls.	21.04
Bristles	,,	82
Skins, Goat, Tanned	Pcs.	969
Skin Mats, Dog	,,	1,440
Carpets	Hk. Tls.	322

S. S. M. S. Dollar, June 6.

To New York.

Camphor	Pls.	169
Egg Albumen, Dried	,,	465
Egg Whole, Frozen	,,	1,125
Egg Yolk, Moist	,,	375
Nutgalls	,,	168
Oil, Wood	,,	838
Skins, Doe	Pcs.	4,358
Skins, Goat, Untanned	,,	54,907
Skins, Sheep	,,	4,135
Carpets	Hk. Tls.	305

S. S. Machaon, from U. S. A., June 1.

Cotton Duck	Yds.	515
Waterproof Cloth	,,	598
Cotton Yarn, Grey, Counts over 45	Pls.	30
Iron Nails, Cut	,,	29
Iron Nails, Wire	,,	3,771
Iron Plates	,,	49
Iron Tubes	,,	58
Iron, Galvanized:		
Sheets, Corrugated	,,	842
Sheets, Plain	,,	3,661
Wire	Pls.	670
Wire Rope	,,	693
Wire Shorts	,,	868
Tinned Plates, Plain	,,	954
Bones, Cow	,,	275
Cocoa, Prepared	,,	6
Glue	,,	115
Indigo Paste, Artificial	,,	750
Ink, Printing	,,	2
Leadfoil and Tinfoil	,,	865
Milk, Sterilized	,,	21
Paper, Unclassed	,,	290
Tobacco, Leaf	,,	582
Tobacco, Prepared	,,	3
Chocolate	Lb.	548
Oil, Lubricating	Galls.	54,902
Varnish	,,	788
Bags, Unclassed	Pcs.	144
Machines, Sewing	,,	1
Motor-cars	,,	6
Oilcloth	,,	1,010
Shoes	Pairs	191
Hosiery	Doz.	57
Cigarettes	Mille	63,000
Cigars	Mille	20
Machinery	Hk. Tls.	8,925

S. S. President Jackson, from U. S. A., June 1.

Waterproof Cloth	Yds.	3,602
Copper Ingots	Pls.	1,848
Iron Bars	Pls.	3,315
Iron, Galvanized:		
Wire Shorts	,,	693
Gum, Resin	,,	251
Milk, Evaporated	,,	420
Potatoes, Fresh	,,	87
Wax, Paraffin	,,	387
Bedsteads	Pcs.	140
Motor-cars	Pcs.	17

S. S. City of Pittsburgh, from U. S. A., June 1.

Cotton Goods, Unclassed	Yds.	609
Linen	,,	329
Embroidery Cotton	Pls.	70
Cotton Yarn, Grey, Counts over 45	,,	9
Iron Bars	,,	680
Iron Nails, Wire	,,	7,735
Iron Hoop Cuttings	,,	000
Hoop Pipes	,,	1,396
Hoop Sheets	,,	85
Hoop Washers	,,	59
Iron, Galvanized:		
Sheets, Plain	,,	2,485
Wire	,,	1,176
Wire Rope	,,	694
Wire Shorts	,,	744
Zinc Sheets	,,	27
Bronze Powder	,,	19
Glucose	,,	176
Glue, Cow	,,	21
Grease	,,	273
Gum, Arabic	,,	10
Leadfoil and Tinfoil Mixture	,,	604
Oakum	,,	10
Paints, Unclassed	,,	15
Paper	,,	685
Pitch	,,	30
Soda, Caustic	,,	839
Soda, Silicate of	,,	70
Tobacco, Prepared	Pls.	4
Catsup	,,	154
Pickles	,,	161
Canned Fruits	,,	178
Canned Meats	,,	270
Canned Vegetables	,,	127
Files	,,	300
Oil, Lubricating, Mineral	Galls.	47,428
Oil, Unclassed	,,	3,378
Rum	,,	4,500
Clocks	Pcs.	1,392
Motor-cars	,,	23
Typewriters	,,	18
Shoes	Pairs	360
Cigarettes	Mille	58,750

S. S. Wawalona, from U. S. A., June 1.

Flour, Wheat	Pls.	15,000
Timber:		
Softwood, Ordinary Sawn	Sup. ft.	442,233
Softwood, Clear	Sup. ft.	18,702
Softwood, Merchantable	Sup. ft.	20,618

S. S. Wawalona, June 1.

To Houston.

Hair, Human	Pls.	98

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Outline for the Study of Current History, Finance and Commerce of China

by
H. F. MacNair, Ph. D.
Professor of History and Government, St. John's University

This outline, primarily for the use of middle schools and colleges, is based upon the Review for last week. It is not intended that the whole of the outline be used but that those topics be selected that are found to be adapted to the class.

1. International Affairs

Topic 1: The Opium Question

References: Pp. 100-101,128

Questions: 1. How long has opium been known in China? 2. How did its use by smoking come into China? 3. In what way has opium played an important part in the international relations of China? 4. When was its importation legalized? 5. Why has the opium question appeared again recently in international news? 6. Why should the League of Nations handle this question? 7. Who are Bishop Brent, the Hon. Stephen Porter, and Sir Malcolm Delevingne? 8. Define Raw Opium, Prepared Opium, and Medicinal Opium. 9. What organization in China is working to suppress the opium traffic? 10. What book is mentioned that students of this question should become acquainted with? 11. Who is Mr. C. P. Wang, and what is said concerning him? 12. What solution for this question is offered? 13. What methods are used by opium smugglers in China? 14. Discuss the financial aspects of this question from an international point of view. 15. How have the Tuchuns aided the opium cultivation in China?

Topic 2: International Aspects of Banditry in China

References: Pp. 98,114,116,118

Questions: 1. Why is the bandit situation a factor in China's international relations? 2. What attitude is being taken by the foreign Chambers of Commerce in this country? 3. Has any official action as yet been taken by the foreign governments? 4. What tone is being taken by the English papers?

Topic 3: The Anti-Japanese Boycott, and China's Humiliation Day

References: Pp. 104-5,120

Questions: 1. What is the immediate, and what the underlying causes of the boycott? 2. Do you think this the best method of handling the situation? 3. What is the date of China's Humiliation Day? What kind of celebrations were held recently in connection with this? 3. What is meant by "authoritative leadership"? How did Japan have this, and why is China lacking it? Explain carefully? 5. What difference is there in the attitude taken by the Japanese and the Chinese in reference to the return of Shantung? 6. Explain the divergent contentions of the two countries. 7. In what ways does the present anti-Japanese boycott differ from previous ones? 8. What message has the Chinese General Chamber of Commerce sent to Japan? 9. What is the present status of the boycott?

2. Domestic Affairs

Topic 1: Agriculture in China

References: Pp. 101-103

Questions: 1. What is the source of this article? 2. What part has the Department of Agriculture had in the development of that profession in the United States? 3. What is "extension work" and what is being done in this way to aid agriculture in America? Apply this to China. 4. How are motion pictures being used to aid agriculture in America? Could this be done in China? 5. Why does the writer say that China can learn a great deal from the United States? Discuss fully. 6. What suggestion is made by Mr. Arnold in reference to missionary aid in agricultural education in China? 7. What subjects does Mr. Arnold think Chinese students of the present day should study? 8. What is said as to a landlord class in China? 9. What is the "first great need" of agriculture in China?

Topic 2: Discipline Needed in Chinese Institutions

References: Pp. 103-4

Questions: 1. What is discipline? 2. What changes have come about to weaken discipline in the past fifty years? 3. What criticism of the Student Movement is made? 4. What are the writer's conclusions?

Topic 3: Domestic Aspects of the Banditry Movement

References: Pp. 97, 98-100

Questions: 1. How do the Chinese merchants stand a chance to lose face over the bandit outrage? 2. Have the Chinese captives been released? Why? 3. What is often said as to the humanitarian interest felt by the Chinese people in others of their race? 4. What is mentioned as to the work of Mr. Anderson in obtaining the release of the foreign captives? Who signed the document of release? Under what circumstances? 6. How did some of the Chinese captives escape?

Topic 4: The General Situation in China

References: Pp. 110,112,114,118,120

Questions: 1. What is the situation in Szechuan at present? 2. In what ways is Kwangtung in an unsettled condition? 3. What is it that Messrs. Sun and Chen each expect to gain from conquering the other? 4. Why has President Li left Peking? 5. What is the situation in the north at present? 6. How is Wu Pei-fu busying himself at present?

3. Commerce and Finance

Topic 1: American Trade with the Orient

References: Pp. 105-6

Questions: 1. Where does the Orient now stand on the American trading list? 2. Where were these figures compiled? 2. What change has taken place in the trade with the Orient since 1913? How can this be accounted for? 3. Make a list of the chief commodities sent to America from China, Japan, Straits Settlements, and Australia. 4. What is "lower silver" and what effect does it have on trade with the Orient? 5. If gold is high how is trade with America effected? 6. From a study of the tables on page 106 to what conclusion do you arrive in reference to China's trade with the United States?

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(Established by Act of Congress of June 30, 1906.)

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U. S. COMMISSIONER, Nelson E. Lurton.
CLERK, William A. Chapman.
OFFICE HOURS 10-12; 2-4.
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PRISON PHYSICIAN, DR. T. B. Dunn.
DEPUTY MARSHAL, Wm. Van Buskirk.
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All Notices, Announcements, Judgments, Orders and other Proceedings appearing in this department of THE WEEKLY REVIEW may be accepted as authentic.

MOTION DAY.

All contested motions and demurrers will hereafter be heard on Mondays, beginning at 3 P. M.; provided notice thereof with proof of service on the adverse party or his attorney shall have been filed in the clerk's office by 12 Noon of the preceding Saturday.

ADMISSION TO THE BAR.

Hereafter, applicants for admission to the bar of this court, whether previously admitted elsewhere or not, will be examinedon the following:

1. Extraterritoriality, 25 Corpus Juris, 299—331.
2. Extraterritorial Cases.
3. Extraterritorial Remedial Code.
4. U. S. Rev. Stats., secs. 4083—4131 (Act of Congress of June 22, 1860, 12 U. S. Stats. at Large, Ch. 179.)
5. China Court Regulations.
6. Act of Congress of June 30, 1906 (34 U. S. Stats. at Large, Ch. 3934).

BAR EXAMINING COMMITTEE: Nelson E Lurton. W. W. Blume. Roland S. Haskell.

Shanghai, China, January 2, 1923.

Minutes of Recent Proceedings

Hearings:

June 20, 1923, Cause No. 2180, Tsau Thang Jien et al., doing business under the firm name of Lee Hua Co., Ltd. v. the American Express Co.; testimony taken of T. K. Chang, T. Y. Chang and R. S. K. Irvin.

" 25, " " " 2088, Chan Chang Shun v. C. Berthel & Co., Inc.; on motion to set; passed.

" 25, " " " 1676, H. M. Shirek v. Getz Bros & Co. of the Orient, Ltd.; on petition for writ of error; submitted.

" 25, " " " 2134, The Auto-Palace v. H. S. Honigsberg & Co.; motion to set; passed

" 25, " " " 1848, Koo Star v. R. S. Boyd & Co., Ltd.; on motion for judgment by default; testimony taken of Koo Star.

" 26, " " " 945, Chemische Fabrik Greisheim Elektron v. International Banking Corporation; testimony taken of T. G. Drakeford.

(*Before the Commissioner*)

June 21, 1923. Cause No. 2249, U. S. v. Toney Anastossi; plea of guilty.

" 23, " " " 2251, U. S. v. K. J. Constanse; testimony taken of W. J. Fulker, Lall Singh, E. J. Ling.

" 23, " " " 2250, U. S. v. R. A. Hutchinson; testimony taken of Sher Singh, Indar Singh and R. A. Hutchinson.

BANQUE BELGE POUR L'ETRANGER, PLAINTIFF, v. MONTGOMERY WARD & CO., DEFENDANT

(*Continued from last week*)

By the act[2] creating the Courts of Appeals this provision was made applicable to appeals to those tribunals.[3] It is urged that as defendant failed to take any of these steps within the sixty days, its right to a *supersedeas* is lost. There is much support for this contention in the authorities.

> "The service of a writ of error, or the perfection of an appeal within sixty days, Sundays exclusive, after the rendering of the judgment or the passing of the decree complained of, is an indispensable prerequisite to a supersedeas, and it is not within the power of a justice or judge of the appellate court to grant a stay of process on the judgment or decree, if this has not been done."[4]

Of course it follows that if an appellate judge is without such power, much more so is a trial judge.[5]

Defendant does not contest the legal proposition involved in these authorities. On the contrary, by its course in moving to withdraw its appeal which was in process of perfection, and filing, at the same time, a motion for a new trial, defendant has clearly recognized that such appeal would avail it nothing because the judgment could not be stayed in that proceeding. The motion for a new trial was, evidently, an afterthought, never contemplated until discovery that the time for a *supersedeas* had expired, and resorted to on the theory that a new appellate proceeding could be predicated upon the denial of such a motion, and a *supersedeas* obtained within sixty days from such denial. In other words it is defendant's contention that the filing of such a motion, at any time, extends the period within which a judgment may be stayed.

Defendant relies chiefly upon a decision[6] in which "an order was entered staying the issue of execution" on the date of judgment. This was authorized by an express provision[7] that "execution may, on motion of either party, at the discretion of the court,** be stayed 42 days from the time of entering judgment." The only other provision[8] for new trials in the Federal law is "in causes where there has been a trial by jury." But defendant has not attempted to proceed under either of these provisions. Its motion for a new trial was filed long after the expiration of 42 or even 60 days. In fact, it was filed three and a half months after judgment and without leave of court. It seems more than doubtful, therefore, if defendant can now be heard to claim the benefit of a rule which is applicable only under statutory provisions with which it has not complied. Moreover, if defendant's contention is correct, a party against whom a judgment is rendered in this court may wait indefinitely before filing his motion for a new trial and then have another six months after such motion is overruled in order to perfect his appellate proceeding.[9] If such is the law,

2. Act of Congress of March 31, 1891, 26 U. S. Stats. at Large, Ch. 517.
3. Id., sec. 11; Logan v. Goodwin, 101 Fed. 654.
4. Kitchen v. Randolph, 93 U. S. 86, 23 L. ed., 810. See also Sage v. R. Co., 93 U. S. 412, 23 L. ed., 933; Danville v. Brown, 128 U. S. 503, 32 L. ed., 507.
5. New England R. Co. v. Hyde, 101 Fed., 397.
6. Danielson v. Fuel Co., 55 Fed., 49.
7. U. S. Rev. Stats. sec., 987.
8. Id., sec. 726.
9. Act of Congress of March 3, 1891, 26 U. S. St sec. 11; Barnes Federal Code, sec. 1385.

June 23, 1923, Cause No. 2242, U. S. v. Peter Boutros; testimony taken of Koo Sing Wu.
" 25, " " " 2253, U.S. v. J. E. Fitzpatrick; testimony taken of Nyung Siau Hai, Dogar Singh and J. E. Fitzpatrick.

Judgments and Orders:

June 21, 1923, Cause No. 2248, In re Frederick S. Pray's estate; order appointing administratrix.
" 21, " " " 2230, In re Charles S. Keen's will; order admitting will to probate.
" 21, " " " 2231, In re Otis M. Farnham's estate; order appointing administrator.
" 25, " " " 1848, Koo Star v. R. S. Boyd & Co. and P. F. Pomeroy; judgment for plaintiff.
" 25, " " " 1883, In re George L. C. Gelwicks' will; order admitting will to probate.

(By the Commissioner)

June 21, 1923, Cause No. 2249, U. S. v. Toney Anastossi; sentence.
" 23, " " " 2251, U. S. v. K. J. Constanse; sentence, bound over to U. S. Court for China.
" 23, " " " 2250, U. S. v. R. A. Hutchinson; defendant assessed costs, and warned.
" 23, " " " 2242, U. S. v. Peter Boutros; sentence.
" 25, " " " 2253, U. S. v. J. E. Fitzpatrick; defendant bound over to U. S. Court for China.

Assignments for Hearing:

July 2, 1923, 9:30 a. m., Cause No. 1856, Yu Fong S/S Co. v. Wm. Katz & Co.

Miscellaneous Filings:

June 20, 1923, Cause No. 1678, Hung Tai Hong v. Asia Banking Corporation and Gaston, Williams & Wigmore, etc.; first defendant's brief in answer to plaintiff's motion to strike and demurrer to amended answer.
" 20, " " " 2173, Lee Tung & Co. v. L. Slegman; motion to dismiss
" 20, " " " 2244, In re Hester Smith's will; oath of executor; submission to jurisdiction.
" 20, " " " 2247, J. Hormasjee v. C. Romero; petition; summons issued.
" 20, " " " 2225, Louis Frank Roth v. The Kearny Co. Inc; writ of attachment issued.
" 20, " " " 2248, In re estate of Frederick S. Pray, deceased; petition; depositions.
" 20, " " " 2134, Auto-Palace Co. v. H. S. Honigsberg & Co.; agreed statement of facts; stipulation.
" 21, " " " 2215, Shanghai Municipal Council v. G. E. Young; marshal's return of summons.
" 21, " " " 2245, Louis Frank Roth v. The Kearny Co. Inc; marshal's return of summons.
" 21, " " " 2227, Clifford Maxwell v. L. D. Kearny; marshal's return of summons.
" 21, " " " 2249, U. S. v. Anastossi; complaint.
" 21, " " " 2248, In re Frederick S. Pray's estate; oath and bond of administratrix; letters of administration.

we think the Court of Appeals and not this Court should be the one to announce it and we shall so exercise our discretion as not to deprive defendant of the opportunity of presenting the question to the former Court so that it may decide whether, after more than six months have elapsed from the date of judgment and after a party has elected to proceed without asking a new trial, he may have six months more to perfect a writ of error. In order that this question may be properly tested plaintiff's motions for execution are overruled and defendant's motion for leave to withdraw its appeal is allowed.

II

Coming now to the merits of defendant's motion for a new trial we find counsel complaining that "the Court nowhere in its decision mentions the identity of Tillson with the U. S. Import & Export Company" (p. 15). Well, we did not mention it because we have never considered it sufficiently proved. It is not even alleged in the answer. But to prove such an important contention the burden clearly rested upon defendant. Its manager admitted (pp. 23, 30) that goods were shipped to the U. S. Import & Export Co. If, now, there was no such company it was vital to the defense to prove that fact by clear and competent evidence. The witness Simon, who should know most about it, for he was a fellow employe of defendant with Tillson, testifies:

"Q Did you know the U.S. Import & Export Co.?
A Yes.
Q Do you know anything about that firm?
A Yes, I was in the office when Tillson originated and started it.
Q Who composed the company?
A As far as I know he was the sole individual." (p. 34)

But this is far from saying that the two were "identical." Instances of a "one man corporation," resulting from stock transfers, are not uncommon. But that does not mean that the stockholder and the company are "identical" in legal contemplation. That this U. S. Import & Export Co., was a legal entity—that it was actually organized—seems clear from the testimony just quoted (cf. p. 37) and in the absence of evidence that it was dissolved, it will be presumed[10] to have existed when the goods were shipped. It is true that plaintiff's accountant answers affirmatively the question whether "in this transaction you dealt with him upon that idea, that the U. S. Import & Export Co. was the same thing as Tillson?" (p. 7) and that "as far as we knew" "the U. S. Import & Export Co. was a company owned by Mr. Tillson." (p. 7) But this witness did not profess to know about the company's real status nor was he interrogated on that point. He was merely describing how he dealt with Tillson. The only witness who assumes to state that the company was "fictitious" was defendant's present Manager and we were convinced that he gave merely his opinion. Indeed he very nearly says so himself (p. 22) and he states the sources of his information as follows:

"Ever since I have been here I have been running down the company's affairs by getting correspondence and clues. The U. S. Import & Export Co. has a file in the office of the letters sent by the company to them which of course fell into Tillson's hands. The thing is clear he was carrying on a fictitious company in our office and in our name." (p. 25.)

10. Corpus Juris, XXII, 86; Yankton Nat. Bank v. Benson, 33 S. D., 399, 146 N. W., 582.

June 21, 1923, Cause No. 2230, In re Charles S. Keen's will; petition; depositions; letters testamentary.
" 21, " " " 2231, In re estate of Otis M. Farnham, deceased; petition; deposition bond and oath of administrator; letters of administration.
" 21, " " " 2250, U. S. v. Hutchinson; complaint.
" 21, " " " China Woodworking and Dry Kiln Co. Inc.; articles of incorporation.
" 22, " " " 1351, The Nanyang Bros. Tobacco Co. v. Green Star S/S Co.; amended answer.
" 22, " " " 2157, Salling v. Salling; answer.
" 22, " " " 2088, Chan Chang Shun v. C. Berthel & Co. Inc.; motion to set.
" 22, " " " 1883, In re George L. C. Gelwicks' will; receipt.
" 23, " " " 2251, U. S. v. Constanse; complaint.
" 23, " " " 1676, H. M. Shirek v. Getz Bros. & Co. of the Orient, Ltd.; notice of motion on petition for writ of error; assignment of errors; petition for writ of error; praecipe for transcript of record.
" 23, " " " 2206, Shanghai Hotels Limited v. A. P. Pattison; defendant's motion to open default.
" 23, " " " 2241, The Oriental Press v. J. O. Donovan; demurrer.
" 23, " " " 2134, Auto-Palace Co. v. H. S. Honigsberg & Co.; motion to set.
" 23, " " " 1848, Koo Star v. R. S. Boyd & Co. and P. F. Pomeroy; motion for judgment by default.
" 23, " " " 2178, N. C. Young v. American Trading Co.; demurrer.
" 23, " " " 1883, In re George L. C. Gelwicks' will; deposition.
" 25, " " " 2253, U. S. v. Fitzpatrick; complaint.
" 25, " " " 2254, Koh Sun Kee, Ah Lee Casing Co. v. Block & Co.; petition; summons issued.
" 25, " " " 2255, China Motors v. L. D. Kearny; complaint; undertaking; bond; writ of replevin issued; summons issued.
" 25, " " " 2158, Peter Volkoff v. E. Burt; application for writ of execution.
" 25, " " " Hoyt & Co. Inc.; articles of incorporation.
" 25, " " " 2256, E. Johnson v. A. Liddy; complaint; summons issued.
" 25, " " " 1958, Auto Castle v. I. Delbourgo; transcript of testimony.
" 26, " " " 2241, The Oriental Press v. J. O. Donovan; amended petition.
" 26, " " " 2257, U. S. v. Glemby; complaint.
" 26, " " " 2119, U. S. v. Quinby; marshal's return of final commitment.
" 26, " " " 2194, U. S. v. Moore; marshal's return of final commitment.
" 26, " " " 2213, U. S. v. Lucas; marshal's return of final commitment.
" 26, " " " 2255, China Motors v. L. D. Kearny; marshal's return of writ of replevin.
" 26, " " " 2140, Arthur Isler v. B. Powers; marshal's return of writ of execution.

In other words while he calls this a "fact" it seems plainly to be based on "correspondence and clues" which are not in evidence. Tillson's company was started in 1920 (p. 37) while the present Manager did not come to Shanghai until Nov. 21, 1921 (pp. 20, 27). He does not claim to have inquired at the offices where articles of incorporation are filed and if he had his testimony would not be admissible as to what their records disclose. In fact he makes no claim to any first hand knowledge of the subject and we could not but feel that a rigid cross-examination of him would have shown many of his assertions to be purely speculative. Where a witness fails to state the basis of his knowledge and it is apparent that he could not know first hand much of what he states, we do not feel obliged to accept his assertions at face value merely because of insufficient cross-examination.

On this testimony, therefore, we could not find that the U. S. Import & Export Company was "identical" with Tillson when defendant shipped the merchandise in question and the elaborate and ingenious legal argument based on such supposed identity lacks the necessary evidential basis.

(To be continued next week)

IN THE UNITED STATES COURT FOR CHINA

In re Last Will and Testament of CHARLES F. KEEN, Deceased. | Cause No. 2230 | Estate No. 508 | NOTICE

Pursuant to an order of said Court, notice is hereby given to all persons having claims against the estate of Charles S. Keen, deceased, to present the same with vouchers to the undersigned on or before December 30, 1923, and all persons owing debts to said deceased are hereby notified to make payment of the same in due course to the undersigned.

MARION F. KEEN,
Executrix,
Nanking China.

June 30, 1923.

In the United States Court for China

AGNES MARIA GARZA, Plaintiff. vs. EDWARD REIOS GARZA, Defendant. | Cause No. 2232 | Civil No. 814 | SUMMONS

The President of the United States of America

To the United States Marshal for China and his Deputies—*GREETING:*

You are hereby commanded to serve this summons and a copy of the Petition in the above entitled action upon the defendant—

Edward Reios Garza,

if found within the jurisdiction of this Court and to notify him to be and appear before this Court on or before the sixtieth day after service hereof to file his written answer on oath.

(SEAL) WITNESS the HONORABLE CHARLES S. LOBINGIER, Judge of the United States Court for China, at Shanghai, China, June 6, 1923.

W. A. CHAPMAN
Clerk.

Excerpt from Regulations, Section 8: On proof of due notice, judgment by default shall be procured against any defendant failing to appear and file his written answer as required.

Shanghai-Nanking Railway Abridged Time Table.

Shanghai North to Nanking—Up (Main Line) **Nanking to Shanghai North—Down**

STATIONS	Local	Fast R.	Local	3rd & 4th Local	S.N.L. P.P.L. Express Mail	3rd & 4th	Local	S.N.L. T.P.L. Fast Express	Local	Fast Local	Local	Local	Night Express R. S.
Shanghai North d.		7.00	7.15	7.35	9.30	9.50	12.10	12.30	15.25	17.15	17.45	19.35	23.30
Nansiang ... ... d.		7.28	7.45	8.03	—	10.31	12.41	12.58	16.01	17.47	18.15	20.05	0.02
Soochow ... ... d.		8.59		9.41	11.14	12.53		14.43	18.24	19.39			1.39
Wusih ... ... d.	7.00	9.59		10.44	12.02	14.12		15.38	19.34	20.56			2.38
Changchow ... d.	8.14	10.56		11.41	12.49	15.28		16.38		21.38			3.42
Tanyang ... ... d.	9.30	11.52			13.38	16.28		17.38					—
Chinkiang ... d.	10.31	12.49			14.22	17.34		18.33					5.14
Nanking ... ... a.	12.30	14.21			15.43	19.33		20.02					7.20
Pukow ... ... d.					19.10			21.00					
Hsuchowfu ... d.					—			5.08					
Tsinanfu ... ... d.					—			13.16					
Tientsin Central a.					23.52			—					
Do. d.					0.02			21.20					
Tientsin East... a.								—					
Do d.								22.05					
Peking ... ... a.								1.30					

STATIONS	Local	Fast Local	Local	Local	Fast R.	3rd & 4th Local	3rd & 4th	Fast R.	Local	Local	Express R.	Local	T.P.L. Mail
Peking ... ... d.													—
Tientsin East ... a.													—
Do. d.													14.35
Tientsin Central a.													—
Do. d.													—
Tsinanfu ... ... d.													—
Hsuchowfu ... d.													—
Pukow ... ... a.					7.40		8.10	11.05			15.50	16.15	18.00
Nanking ... ... d.					9.20		10.25	12.54			17.29	18.27	
Chinkiang ... d.					9.57		11.21	13.36			18.03	19.26	
Tanyang ... ... d.					10.59	12 00	12.44	14.32			18.37	20.46	
Changchow ... d.		7.10			11.59	13.02	14.07	15.33			19.43	21.52	
Wusih ... ... d.		8.22			12.54	14.02	15 25	16.31			20.32		
Soochow ... ... d.		9.39			14.33	16.03	17.45	18.18	18.40	20.35	—		
Nansiang ... ... d.	8.15	10.33	11.34	13.00	15.00	16.30	18.20	18.45	19.13	21.05	22.00		
Shanghai North a.	8 42	11.00	12.05	13.30									

Woosung Forts to Shanghai North—Up (Branch Line) **Shanghai North to Woosung Forts—Down**

Woosung Forts d.	6.45	8.15	9.40	11.05	12.30	13.55	15.20	16.45	18.10	19.35	21.00	22.25	23.50	1.15
Kiangwan ... d.	7.10	8.40	10.05	11.31	12.55	14.20	15.46	17.10	18.35	20.00	21.25	22.50	0.15	1.40
Tientungan ... d	7.16	8.46	10'11	11.37	13.01	14.26	15.52	17.16	18.41	20.06	21.31	22.56	0.21	1.46
Shanghai North a.	7.20	8.50	10 15	11 41	13.05	14.30	15 56	17.20	18 45	20 10	21.35	23.00	0.25	1.50

Shanghai North d.	6.00	7.30	9.00	10.25	11.50	13.15	14.40	16 05	17.30	18.55	20.20	21.45	23.10
Tientungan ... d.	6.05	7.35	9.05	10.30	11.55	13.20	14.45	16.10	17.35	19.00	20.25	21.50	23.15
Kiangwan ... d.	6.12	7.42	9.12	10.37	12.02	13.27	14.52	16.17	17.42	19.07	20.32	21.57	23.22
Woosung Forts a	6.35	8.06	9.35	11.00	12.35	13.50	15.15	16.40	18.05	19.30	20 55	22.20	23.45

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Shanghai-Hangchow-Ningpo Railway Abridged Time Table

Shanghai North to Zahkou—Down (Main Line) **Zahkou to Shanghai North—Up**

STATIONS	Local	Express R.	2nd 3rd & 4th	Fast R.	Local	Local	Night Express R.
Shanghai North ..... dep.	..	8.00	9.00	13.20	15.45	..	19.15
Jessfield ..... dep.	..	8.15	9.16	13.36	16.05	..	19.30
Siccawei ..... dep.	..	8.21	9.23	13.43	16.13	..	19.36
L'hwa Junction ..... dep.	..	8.35	9.40	14.00	16.30	..	19.50
Shanghai South ..... dep.	..	*8.06*	*9.05*	*13.35*	*15.45*	*18.00*	*19.20*
Lunghwa Junction ..... arr.	..	*8.23*	*9.23*	*13.43*	*16.03*	*18.18*	*19.38*
Sungkiang ..... dep.	..	9.14	10.50	14.46	17.42	..	20.29
Kashai ..... dep.	..	10.01	11.57	15.43	18.47	..	21.16
Kashing ..... dep.	7.25	10.31	12.40	16.16	——	..	21.46
Yehzah ..... dep.	8 19	11.02	13.32	16.56	----	..	22.17
Changan ..... dep.	9.25	11.36	14.23	17.40	---	..	22.51
Hangchow ..... dep.	11.00	12.30	16.00	18.50	----	..	23.45
Zahkou ..... arr.	11.25	12.45	16.30	19.10	----	..	24.00

STATIONS	Local	Local	Express R.	Local	2nd 3rd & 4th	Fast R.	Local
Zahkou ..... d.	..	..	7.15	..	8.40	13.20	15.35
Hangchow ..... d.	..	..	7.40	..	9.15	13.50	16.10
Changan ..... d.	..	..	8.29	..	10.45	15.00	17.45
Yehzah ..... d.	..	..	9.00	..	11.53	15.37	18.45
Kashing ..... d.	..	7.30	9.39	..	12.50	16.24	..
Kashai ..... d.	..	8.02	10.02	..	13.26	16.52	..
Sungkiang ..... d.	..	9.15	10.52	..	14.42	17.49	..
Lunghwa Junction .... d.	*8.37*	*10.37*	*11.37*	*13.57*	*16.07*	*18.48*	..
Shanghai South ..... a.	*8.55*	*10.55*	*11.55*	*14.15*	*16 25*	*19.00*	..
L'hwa Junction .... d.	..	10.34	11.32	..	15.50	18.40	..
Siccawei ..... d.	..	10.43	11.40	..	15.59	18.49	..
Jessfield ..... d.	..	10.51	11.46	..	16.06	18.56	..
Shanghai North .... a.	.	11.05	12.00	..	16.20	19.10	..

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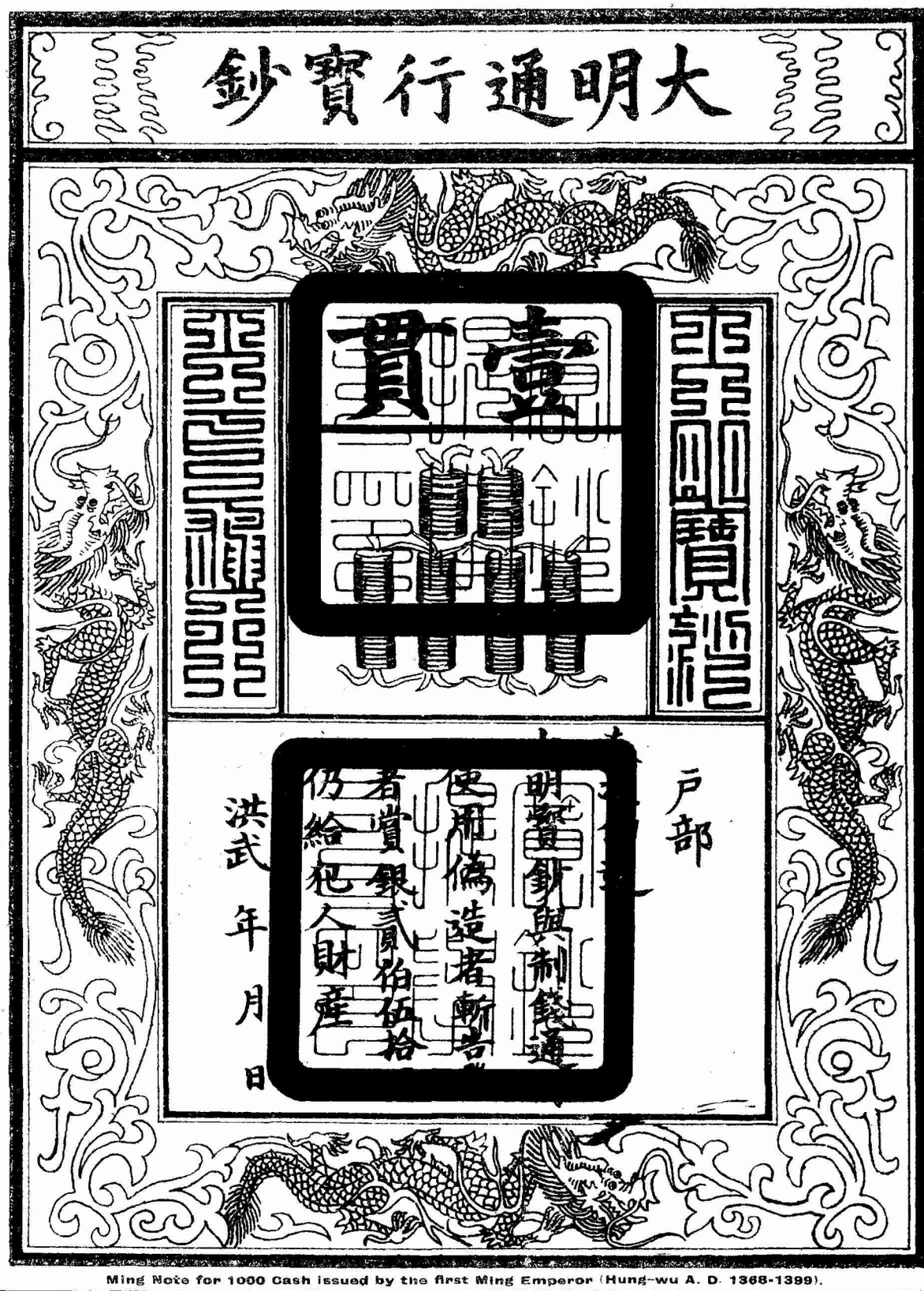

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ISSUED AS A SUPPLEMENT OF THE WEEKLY REVIEW FOR JUNE 30, 1923.

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Who's Who Among Contributors

T. D. Zar, sub-manager of the Chung Foo Union Bank, is recognized as an authority on banking affairs, not only because of his position but also because of the fact he is a careful student of financial affairs.

Singloh Hsu is assistant general manager of the National Commercial Bank. Mr. Hsu, who has written a number of carefully prepared articles on financial affairs as they relate to the commercial and political life of China, contributes the most comprehensive discussion of China's indebtedness which this magazine contains. He was asked to prepare this article because of his peculiar qualifications for such.

Archibald Rose, of the British-American Tobacco Company, has made a special study of conditions affecting the copper money of China and conditions affected by the debasement of the copper coins. He has made one of the best collections of copper coins to be found anywhere.

R. Buchan, manager of the Shanghai branch of the Asia Banking Corporation, is recognized among foreign and Chinese bankers as one of the best silver men in the Orient. He was especially invited to contribute an article for this magazine because of his special qualifications for discussing this subject.

T. M. Hsi, sub-manager of the Chung Foo Union Bank, is actively identified with the Chinese Brokers' Association, and therefore is able to write from the inside.

T. S. Hsu is editor of the *Chinese Bankers' Weekly* of Shanghai and financial editor of the *Sin Wan Pao* of Shanghai.

Dr. Jacob Gould Schurman is United States envoy extraordinary and minister plenipotentiary to China. The contribution by him printed here was written as an address at the observance of Washington's Birthday in Peking and is reproduced here by his permission.

The contributor writing under the initial Y. T. S. is a Chinese banker of prominence, holding an important post in one of the leading banks of China.

Roy C. Bennett, is an American newspaperman having long experience in the Far East. He is editor of this special issue of the *Weekly Review*.

Frederick W. Stevens has represented the American banks in the international consortium and during a prolonged sojourn in the Chinese capital he came into close contact with the various financial problems before the Chinese government. In writing for this issue of the *Weekly Review* he was not writing in any official capacity.

Hin Wong, formerly editor of the *Canton Times*, is South China correspondent for the *Weekly Review* and numerous other publications. As a student in America and as correspondent in Washington during the Washington Conference he studied the problems of his country from a comparative point of view.

G. Padoux is financial adviser to the Chinese government. The contribution from him printed here was prepared as a memorandum for the National Commission for the study of Financial Problems. This memorandum, having an official significance, has formed the basis of the most comprehensive discussions of China's finances.

Sao-ke Alfred Sze is envoy extraordinary and minister plenipotentiary of the Republic of China to the United States. He was chairman of the Chinese delegation to the Washington Conference. While in China recently Dr. Sze was appointed minister of foreign affairs in the Peking cabinet, but resigned and returned to America.

Rodney Gilbert, who has been a recognized authority in journalistic work in China for several years, is Peking correspondent for the *North China Daily News* and the *Peking and Tientsin Times*. The article written by him printed in this magazine was originally prepared in far more comprehensive form for publication serially in the *North China Daily News*.

Dr. C. T. Wang, who was one of the Chinese delegates to the Paris Peace Conference and later was director of the board that perfected and executed plans for the return of Shantung, is chief delegate to a conference for the settlement of important questions between China and Russia. For a short time he was premier of China and is one of the important factors in moves to disentangle China's finances.

K. P. Wang, who was a correspondent at the Washington Conference for the *Shun Pao* of Shanghai, is secretary of the Peking Chinese Bankers' Association and chief of the translation division of the ministry of communications.

THE WEEKLY REVIEW

Formerly Millard's Review

Published at No. 4 Avenue Edward VII, Shanghai China, by Millard Publishing Company Incorporated by the Laws of the State of Delaware, United States of America.

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YEARLY SUBSCRIPTION, FIFTY-TWO ISSUES, TEN DOLLARS (CHINESE CURRENCY) IN ADVANCE. POSTAGE INCLUDED IN CHINA AND JAPAN. IN THE UNITED STATES AND FOREIGN COUNTRIES SEVEN DOLLARS AND FIFTY CENTS U. S CURRENCY. REMITTANCE FROM OTHER COUNTRIES THAN CHINA AND THE U S CAN BE MADE BY INTERNATIONAL MONEY ORDER. ENTERED AS SECOND-CLASS MATTER IN THE CHINESE POST OFFICE AT SHANGHAI IN MAY 1917.

Contents

Editorials 3

The Unsound Debts of a Sound Government

Picking the Debts to Be Paid

Modern Chinese Banks as Pioneers in Financial Reform

Is China on the Verge of Bankruptcy? *By Dr. C. T. Wang* 5

Chinese Government Finances and Debts *By Singloh Hsu* 7

American Banks Taking Their Place in China *By Roy C. Bennett* ... 10

Chinese Finances Since the Washington Conference *By Jacob Gould Schurman* 13

Another View on Consolidation of Debts *By Frederick W. Stevens* ... 16

The Financial Reconstruction of China and the Consolidation of China's Present Indebtedness *By G. Padoux* 17

Opposition to Padoux's Consolidation Plan from Americans 20

Reorganization of China's Foreign and Domestic Loans (A Translation) *By Li Chin-Ming* 21

The Funding of China's Debts *By Rodney Gilbert* 23

The Republic of China and American Finance *By Dr. Sao Ke Alfred Sze* 26

China and the Silver Situation *By R. Buchan* 27

South China Financial Progress *By Hin Wong*..... 30

The Native Banks of Shanghai *By T. S. Hsu* 31

Chinese Participation in Exchange Banking *By T. D. Zar*..... 33

The Chinese Exchange Brokers' Association *By T. M. Hsi*..... 35

Chinese Provincial Banks *By Y. P. S.* 36

Shanghai Mint to Pour Out Silver Dollars *By Roy C. Bennett* 37

Exchange Rates Fluctuate When Speculation Influences Market *By Roy C. Bennett* 39

The Ministry of Finance, Its History and Organization *By S. G. Cheng* 41

The Chinese Banks and the Government of China *By K. P. Wang* 43

Trading with Foreign Money in China 45

Dr. Koo's Statement on Austrian Loans 56

China's Copper Currency and Its Debasement *By Archibald Rose*... 57

Modern Chinese Banks in Shanghai 107

AMERICAN OFFICE

WORLD WIDE NEWS ASSOCIATION

303 Fifth Avenue, New York City

Telephone: Lexington 5300 Cable Ad.: Worwidnews, N. Y.

Orders for advertisements and subscriptions in the United States may be placed through the New York Office.

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Colorado Building, Washington, D. C.

密勒氏評論報

THE WEEKLY

REVIEW

Formerly Millard's Review

中華郵政特准掛號立券之報紙

Registered at the Chinese Post Office as a Newspaper for transmission with special marks privileges in China.

VOLUME XXV SHANGHAI, CHINA, JUNE 30, 1923 NUMBER 5

The Unsound Debts of a Sound Government

ON the one hand there are those who severely criticize the Chinese government on account of its financial embarrassment and its failure to better conditions in this connection; on the other hand there are those who in reply point out that fundamentally China is financially sound, that the national indebtedness is a mere pittance in proportion to the national resources. Both are supported by perfectly sound arguments in their contentions. The government is in a serious plight financially, and in spite of the national resources, which are far greater than most of the people residing in China realize, the government is not making progress toward righting her house financially.

The person who can make a calculation showing how China can liquidate her indebtedness in the space of a few years is not necessarily an expert on government or international finances. However, calculations of this nature to be of any practical value must be based upon the presupposition that a condition which does not now exist will in the future be brought about. In other words when a plan is advanced for the wiping out of China's debts, that plan must provide the means whereby the money paid by the people for the support of the government goes where it belongs. China would be able to relieve herself of the present embarrassing position if the leaks in the national financial chamber and the approaches thereto were stopped. A very substantial part of the leaks are along the channels through which the nation's revenues should flow to the government till. Just so long as most of the money collected in China in the name of taxation is misused there will be an empty ring to the assurances that there are ample resources to render secure far larger debts than those now embarrassing China. When provincial officials and provincial government usurpers can seize the funds of the government there is little use of trying to pacify creditors by telling them their debts are perfectly safe because the government is rich in resources and has the smallest per capita debt of any nation in the world. The money collected in the name of taxation must be used in the name of honest government. To see that it is so used is a problem that must be solved by the Chinese. Anything in the nature of further international supervision of China's internal financial affairs, is not probable now or in the immediate future Whether or not it ever comes about depends first and last upon whether or not the Chinese permit their government to drift from bad to worse. International financial superversion of finances would be the equivalent of an international receivership which certainly should never be for a country whose national resources are so very great in proportion to her indebtedness.

Seeing that the local and provincial officials render to the government that which is the government's is a problem for the Chinese. It is an internal question, and will remain so unless the outside powers are forced into a course that will render it otherwise. But China's national plight is not exclusively an internal question. China and the Chinese are not wholly to blame for the conditions which are lamented by all friends of China. Foreign powers and foreign nationals are party to many highly questionable deals through which China was brought and is kept deeply in debt. There must be two parties to a contract, almost always two guilty parties to a questionable contract. Unscrupulous officials could not sell the birthright of their government if there were no takers when they indicated a wiilingness to sell. Concessionists, governments and individuals, have found China a happy hunting ground. There would be no secret agreements, if there were not two parties wishing to conceal their negotiations. There could have been no Nishihara loans if both Chinese and Japanese had not been willing to enter the agreement for such. Just now revolutionary governments in China are being courted by representatives of so-called friendly powers who are willing to make a loan for a consideration.

So long as this is true and so long as Chinese officials and local or factional government leaders can be found to misuse the funds with which they are intrusted by virtue of their office Chinese debts will remain unpaid despite the favorable report as to the relative size of liabilities and assets, debts and resources. Debts are sound only when the debtor is able to pay, and the nation that cannot control the sources of its revenues, is, at least temporarily, incapacitated for paying. The sources of revenue are not safe so long as the capital is teeming with all varieties of concession hunters lying in wait for an oportunity to tie up the resources of the country by the piece-meal process through money temporarily advanced for questionable purposes.

Picking the Debts to Be Paid

IF a debtor pools his resources and thereby provides security sufficient to convince his creditors that the payment of the sums owing to them will be covered as his income flows in, and if in apportioning the security so provided he excludes from the benefits one group of his creditors, a stout protest is the natural result. If the Chinese government adopts a plan to consolidate its debts and pledges the sources of revenue of the government to the liquidation of these debts, but excludes from the plan the Ministry of Communications obligations, those debtors to whom the government owes approximately $108,000,000 (Chinese currency or approximately $54,000,000 in U. S. currency), mostly for railway equipments and materials, may be expected to protest. Precisely such would be the case if the Chinese government followed the plan of debt consolidation recommended by G. Padoux, adviser to the Peking government, who recently issued a financial report, which has attracted more attention than has any other similar document connected with China's financial affairs recently. Because of the widespread interest that attaches to it the report of Mr. Padoux is reproduced in full in this magazine and is discussed from several angles by numerous contributors.

The first formal and open opposition to the plan suggested by Mr. Padoux was expressed in a resolution adopted by the American Chamber of Commerce of Peking. This resolution also is printed in this issue of the WEEKLY REVIEW along with the report of Mr. Padoux. The American Chamber of Commerce of Peking, whose action is endorsed by the Associated American Chambers of Commerce of China, shows far more concern over the unpaid and unsecured railway loans, because of the sum of the $108,000,000 a large part is owing to American companies which sold railway supplies and equipments to the Chinese government lines. Mr. Padoux leaves these loans out of his consolidation plan because he says they are secured on the railways themselves and that their service may be met by the railway receipts.

Experience of the last few years has not proved the correctness of this statement of Mr. Padoux. These debts have not been paid by the receipts of the railways. For more than two years the Chinese government has been in default on these debts, and the companies to whom the money is overdue have suffered severely and still are suffering. The government railways during this time have been largely controlled by militarists, who used not only the railroads and their equipments for military purposes but applied the receipts from the roads' earnings much as they chose. It is one thing to point out that the roads can earn money with which to meet the obligations incurred in the purchase of materials for them, but it is quite another thing to direct the earnings of the roads into the channels which will carry them to the waiting creditors. The American Chamber of Commerce of Peking was recalling experiences of the last few years and facing the situation frankly when it wrote in its resolution that in the belief of the chamber "during the current year the Ministry of Communications will not only fail to meet its obligations for the payment of interest and principal on Government Railway and Telegraph Loans but will also be unable to reduce or even pay interest on over 108 million silver dollars of indebtedness."

American interests could hardly be expected to sit idly by and be resigned to seeing the Chinese government work out a debt consolidation plan which would provide exclusively for the meeting of the debts of others through the increase in revenues by a 2 ½ percent surtax and 5 percent luxury tax provided for in the Washington Conference agreements. When the Special Conference, which comes into being according to the Washington Conference agreements, is held here this year the creditors of the Ministry of Communications do not want to be in the position of feeling that the debts of everybody else are being provided for while theirs are left out in the cold. If such should be the case this Special Conference will be falling far short of performing the service which America and Americans considered as belonging to it. Any debt consolidation plan which excludes these loans or any other important block of loans is inadequate, and more than that unjustly discriminatory.

It is not to be assumed that the recommendations contained in the report of Mr. Padoux have been adopted, or even that they are certain to be. However, it would be folly to wait until the recommendations have been finally disposed of before pointing out the shortcomings of the plan they suggest. If the Chinese government is made to see the injustice of applying certain revenues of the government so that part of the debts are paid while others which are equally just remain unpaid certainly such a plan will not be adopted.

Modern Chinese Banks as Pioneers in Financial Reform

In the field of banking China is in a period of transition. China is not young in banking, but in modern banking the nation is in its infancy. The old order of banks suited the old order of commercial life, but when trying to serve the commercial China of today, they are inadequate. In such cities as Shanghai Chinese banks are advancing at a rapid rate, but in the districts more removed from foreign contact, the change from the old to the new is only beginning in a limited way. The bulk of the banking business in China follows lines belonging to the old order of things. But this does not mean that the banks are behind the business communities which they serve, because generally speaking commerce has not been modernized except to a very limited degree.

This, however, is not intended as an indictment against Chinese banks in general for lack of modernization. On the contrary we wish to congratulate the group of Chinese bankers who are leading the way in a movement for national commercial and financial progress and advancement. These men are pioneers, and upon the degree of thoroughness with which they perform their task will depend much as regards the permanent influence they wield. The modern Chinese banks of today are modern in a double sense, they follow modern methods and they are new. It will be noted from data printed elsewhere in this publication that practically all the modern Chinese banks are only a few years old. They have difficuties far greater than can be understood by one unfamiliar with the older type of banks, the older order of commercial life in China. But generally speaking they are conducted successfully and through their success they are proving the merits of the order which they represent.

To a very large extent these banks are conducted by young men, and among their employes are scores of youths, whose duty it will be tomorrow to become leaders in the work which has just started and which must be extended. These young men are they who will be called upon to put into practice the reforms which China needs for the reorganization and reform of her national finances.

Is China on the Verge of Bankruptcy?

BY C. T. WANG

IN the minds of many well-wishers of China there is a fear that China is on the verge of bankruptcy. I use the word "well-wishers" advisedly, because we need not take into consideration those who wish to see China bankrupt, dismembered, and ruined. These are prompted by the malicious motive that the misfortune of others means prosperity for themselves, which is, however, far from the truth. No one can really live to himself. Nations have to share in common the consequences of either misfortune or prosperity.

Mr. G. Padoux, an adviser to our government, has made a careful comparison between China and several important foreign powers on the one hand and between China and an equal number of Asiatic countries on the other, in the amount of per capita revenue derived from taxes and duties. I will quote his figures as follows:—

Table I

Great Britain	$ 170.
France	90.
Italy	24.
Belgium	
United States	30
(Federal Taxation only)	120.

Table II

Japan	$ 16.00
Philippines	7.50
French Indo-China	5.50
Siam	9.50
Dutch East Indies	15.00

According to Mr. Padoux the per capita burden of our people amounts only to $1.20, taking the population at 400 million and the total amount of the governmental taxation, central, provincial and local, at 500 million silver dollars per year. These figures, of course, cannot be considered as final, but it is clear that the Chinese people have certainly a very light burden to bear, especially in view of the vast resources in agriculture, minerals and human labor that are available in China.

Dr. C. T. Wang

Turning now to the per capita ratio of national debts, the figures demonstrate a similar healthy financial situation for China.

Great Britain	$1,440.00
France	1,310,00
United States (Federal debt only)	433.00
Belgium	312.00
Italy	190.00
Japan	50.00
China	4.75

Mr. Padoux in giving the per capita figure for China, states that the national debt for China, amounting to 1,900 million silver dollars, is exclusive of railway debts, but inclusive of all other debts, both domestic as well as foreign. Inasmuch as most railways in China are state-owned, it may as well include same in our computation. Even with the addition of 507 million silver dollars for railways, the per capita burden of China's national debt for the people is only a little over six silver dollars!

It is, therefore, clear as daylight that China is far from the verge of bankruptcy. The real trouble lies in the want of a stable, efficient and intelligent government to bring about constructive measures in two directions: 1st, to consolidate the heterogeneous foreign and domestic loans; and 2nd, to read just the system of taxation with a view of making it more uniform and systematic and of preventing the revenue being diverted into illegitimate and unproductive channels.

Before dealing with each of these two questions, I wish to point out three essential conditions attached thereto. First, there shall be a clear demarcation between the national and provincial powers and a definite understanding as to what constitutes the national revenue and what, the provincial revenue. I am in complete accord with Mr. Padoux in his statement that "the financial reconstruction of China is not primarily a financial problem. It is a constitutional and political question, the solution of which lies in the readjustment of the relation between the provinces and the central government. He has hit the nail on the head.

Unification Is a Condition

The second condition is a corollary of the preceding proposition. With the national and provincial powers determined and the national and provincial revenue defined, the way is paved for the nation to be unified; and unless the nation is unified and the mandates of the general government obeyed by the provinces concerning matters which are entrusted to the national government, it is nothing but mere idle talk about financial reconstruction for China. In the days of the Manchu regime the position of the provinces was well defined and understood. The central government expected from the provinces only a certain quota of the revenue from each province and loyalty of the provincial officials. Everything else was left to the provinces themselves. The late Yuan Shih-k'ai in his administration as President of the Republic, made a desperate but fatal effort to have absolute control over all the affairs of the provinces. He was no doubt aware of the consequences that would be sure to follow in thus upsetting the time-honored policy of balance of powers between the central and provincial governments and putting in its place a highly centralised government. For the last eleven years the history of China is a continuous chapter on the conflict between Peking, in endeavoring to keep control over the provinces, and the provinces, in resisting same. Peking has been

losing ground steadily until now there is not even the shadow of authority over the provinces.

There is a third condition to be fulfilled before financial reconstruction should be put into execution. It is not to be misunderstood that no reconstruction scheme is possible without first fulfilling this condition, but however good the scheme might be, it would do China only more harm than good, if it were not firmly determined at the start and resolutely followed thereafter, to put a stop to the ruinous practice of raising mushroom armies first and then scouring the country for money for their support—stooping so low as even to threaten to turn loose these bandit-soldiers on the defenceless and peaceful citizens if no money was forthcoming. The expenditure and income of the government, either national or provincial, should be properly budgeted and audited. A certain share of the income of the nation is to be appropriated each year for the defence and protection of the country against either foreign foe or internal disorder.

Division of Revenues

These three conditions being so essential in any scheme of reconstruction of China's finances, we should endeavor to find solutions for their fulfilment first. I would assign to the national government five sources of revenue—customs, salt, wine and tobacco, stamps and means of communications, the last comprising railway, telegraphic and postal administration. All other taxes would go to the provinces with this important proviso that the residual powers are reserved to the central government, so that at any time when deemed necessary by the nation as a whole through the articulation of the National Assembly, certain other sources of revenue could be declared as national. Similarly, I would assign to the central government the following functions: to exercise national legislation; to direct foreign affairs; to provide national defence; to construct and control means of communications; to levy taxes and duties through customs, salt, stamp, wine and tobacco administration; to regulate commerce and promote trade with foreign nations; to coin money and regulate the value thereof; to fix the standard of weights and measures; and to constitute and administer judicial courts. I would leave to the provinces sufficient powers to determine upon and carry out measures for their own weal and happiness, provided they refrain from infringing upon the powers and functions of the central government and recognize that the residual powers are reserved to the central government. With this in view the central government may exercise control over any province that is not ready for, or at any time proves incapable of, self-government. The fulfilment of this condition is a constitutional question. It is of great importance therefore that the work of the national assembly on the constitution should be expedited.

The second and third conditions call for political readjustment. I would favor the calling of a national conference, as soon as but not before the constitutional question, discussed in the preceding paragraph, is settled. China today is very much like the European nations before the Great War, of course on a much smaller scale. Each province is jealous of every other province, and is in a desperate race for the enlargement of armament and military forces. The welfare of the nation demands a cessation of such ruinous competition, continuous dislocation of trade through armed conflicts, and gradual exhaustion of energy and resources of the country. I would appeal to those who are dominating the political affairs of the country to give their support to the successful working out of these two vital questions: to revive the balance of power between the provinces and the central government only with powers and functions more clearly defined than ever before, and to fix the number of men to be necessarily armed for the defence of the nation, drafting the superfluous soldiers for the policing of cities, building of roads, conservation of rivers and canals, and peopling the vast areas of Mongolia and Turkestan on homestead basis.

I have dwelt rather long upon problems which appear on the surface as digression from the main topic of this paper, yet they are so much bound up with China's financial reconstruction that they cannot be passed over in our discussion. We come now to the questions under review. First, the scheme of consolidation of China's debts.

Railway Loans Are Vital

The report of the ministry of finance, issued in October, 1922, states that by the end of September 1922, China's total debts, both foreign and domestic, of which some are fully secured, some are partly secured, and others not secured at all, amounts to silver $1,727,429.704.68. These figures are exclusive of railway loans which amount to some 507 million silver dollars, making a grand total of approximately 2,234 million silver dollars. Allowing a fair margin for exchange fluctuation let us place China's total indebtedness at 2,300 million silver dollars. I do not agree with Mr. Padoux in his scheme of reconstruction to leave out the railway loans, in view of the fact that quite a large amount of the railway loans has been diverted into political uses. I deem that no scheme is complete until it takes into consideration the railway loans as well. It is to be noted, however, that most railway loans are well secured and protected in the sense that all the railways in China, with one or two exceptions due to shortage of mileage or over-capitalisation, are either actually, or capable of, making money. That the revenues of certain railways, fully capable of meeting their due obligations, have been appropriated by military commanders, thereby rendered incapable of making due payments, is a matter for political adjustment and need not enter into our discussions.

While I am in favor of including the railway loans in our scheme of reconstruction, yet I believe they should be treated separately. I would take the railways as one unit. Let the revenue of each line continue to guarantee the payment of interest and principal for bonds issued for its construction. After deducting a reasonable amount from its surplus profit for its maintenance and necessary repair, up-keep, and extension, any balance, whenever available, should go to a common sinking fund to meet the obligations of the railway service as a whole. Loans that have been made in the name of railway construction but have been appropriated for other purposes, should be excluded from the railway service and be drafted on to the other unit. The government and the people of China should consider it as a matter of national honor to keep the revenue from railway service for its maintenance and extension. The country is in sore need of rapid transportation, for the promotion of trade, industry, education and mutual intercourse between the widely separated populations of the country. I strongly believe that of all the potent factors which will bring this far-flung Republic together, railways and public highways shall stand out most prominently when the history of China for the twentieth century is to be written.

(Continued on page 94)

Chinese Government Finance and Debts

By SINGLOH HSU

Assistant General Manager, National Commercial Bank, Shanghai.

OWING to the vastness of territory, lack of means of communication and the time-honored political doctrine of *laissez-faire*, China long ago evolved into a "regional" country. The provinces, which had an unbroken existence of several centuries as administrative units, were, for all practical purposes, autonomous entities, except that the provincial officials received appointment from the metropolis. Government finance was comparatively simple. In addition to maintaining the court and metropolitan officials, the main items of expenditure consisted of military compaigns, public works, famine relief, and imperial celebrations. Tradition had always condemned aggrandisement and court splendor and wise rulers and their advisers were found to make earnest efforts to cut down such budgets. The money for expenditure by the central government was supplied in the form of annual contributions by the provinces which collected revenue from the people.

Chinese finances were in a more or less satisfactory state until the fifties when the Taiping Rebellion devastated twelve of the richest provinces and the British and French allied forces entered Peking. We have no record of their costs to the national treasury, but we know that they taxed the nation's resources to the utmost. Although the Taiping Rebellion was finally put down, the fortune of the Manchu dynasty was steadily on the decline, two of the worst disasters before its ultimate downfall being the Sino-Japanese war of 1894 and the Boxer uprising of 1900. The financial consequence for the country was in the first case an indemnity of Tls. 230,000,000 which was met by foreign loans amounting to £ 54,455,000 and in the second, an indemmity of 450,000,000 taels.

Wars and Reforms Affect Financial Policy

The awakening of China, which had started after the Sino-Japanese war, but subsided as result of the political coup d'etat of 1898, was renewed and became intensified after the Boxer uprising and it took the form of creating modern armies, initiating modern school systems and introducing other modern ways including the building of railways. But all this required money and different means of finding it were resorted to.

To what extent the government finance had expanded at the close of the Manchu dynasty may be seen from the following table:-

Year	*Revenue*	*Expenditure*
1796	Kuping Tls. 43,590,000	Kuping Tls. 31,770,000
1813	,, 41,130,000	,, 35,100,000
1844	,, 37,140,000	,, 31,500,000
1872	,, 60,000,000	,, 70,000,000
1884	,, 82,240,000	,, 78,170,000
1899	Kuping Tls. 88,000,000	Kuping Tls. 101,000,000
1906	,, 104,920,000	,, 134,920,000
1909	,, 263,210,000	,, 269,890,000
1911	,, 296,960,000	,, 301,910,000

The Budget

It was in 1910 that the first "modern" budget for 1911 (approx.) was issued, a thing hitherto unknown.

Revenue was given as Tls. 301,910,294 and expenditures as Tls. 298,444,360.

The Budget for 1912 (approx.) which was also prepared under the Imperial regime, but not executed on account of the revolution, was an improvement upon the first one as regards technique, viz. estimating and compilation. The first budget issued under the republic was for the second fiscal year (July 1, 1913-June 30, 1914) and the latest one up to the present was for the eighth fiscal year (July 1, 1919-June 30, 1920). Intervening, there were three more, one for the third year (July 1, 1914-June 30, 1915) one for the "old" fifth year (Jan. 1,-Dec.3 1, 1916), and one for the "new" fifth year (July 1, 1916-June 30, 1917), the "old fifth" being so styled because the fiscal year was changed, so as to be January-December, by President Yuan Shi-kai in 1915, and only restored to July-June after his fall. These budgets were more or less similar in form. We give below a summary of these budgets:-

(In Dollars)	1912	1913-14	1914-15
Revenue	350,777,402	557,031 236	382,501,188
Expenditure	356,361,607	642,236,874	357,024,030
(In Dollars)	1916	1916-17	1919-20
Revenue	471,946,710	472,838,584	490,419,789
Expenditure	471,519,436	472,838,584	495,762,888

Although five budgets have been issued in the past eleven years of the Republic, no statement of account has yet been published. We have, however, a semi-official statement of the actual receipts and disbursements of the Central government for 1915.

Then, in the middle of November last, the ministry of finance, under Mr. Lo Wan-kan, prepared a statement of the actual monthly condition of receipts and expenditures of the central government as it stood on the 15th October 1922, to serve as an index for the preparation of the twelfth year (July lst, 1923-June 30th, 1924) Budget. It is the latest official document of the kind and permits us to form a fairly accurate idea of the central government finance. The statement may be divided into two parts (1) expenditures and (2) receipts:-

A summary of this report or table follows:

Part I Expenditures-

Table A. Military and Police Expenditures.

Items	*Monthly Amounts*
(A) Total for Metropolitan Troops and Police	$ 664,089.00
(B) Total Expenses incurred directly under Ministry of War	3,582,630.49
(C) Total Expenses for Chihli Troops	739,378.19
(D) Total Expenses for Other Troop	279,363.16
(E) Total Expenses of Offices of Governor-General	70,145.00
(F) Total Naval Expenses	550,000.00
Table B. Governmental Expenses. (Summarized)	
(A) Total for the President's Office .	168,074.21
(B) Total for the Parliament . . .	421,227.00
(C) Total for the Cabinet and its Subsidiary offices	146,273.00
(D) Total for Organisations under Central Government	82,217.93
(E) Total for Ministry of Foreign Affairs and Its Subsidiary Organisations	282,963.00
(F) Total for Ministry of Interior and	

Its Subsidiary Organisations . .	10,2238.50
(G) Total for Ministry of Finance and Its Subsidiary Organisations . . .	184,564.33
(H) Total for Ministry of War and Its Subsidiary Organisations	449,887.98
(I) Total for Ministry of Navy and Its Subsidiary Organisations	72,723.00
(J) Total for Ministry of Justice and Its Subsidiary Organisations . . .	194,796.41
(K) Total for Ministry of Education and Its Subsidiary Organisations .	294,165.16
(L) Total for Ministry of Agriculture and Commerce and Its Subsidiary Organisations	106,467.33
(M) Total for Ministry of Communications	1,400.00
(N) Total for Bureau of Mongolian and Tibetan Affairs and Its Subsidiary Organisations	105,370.63
(O) Total Pensions of the Imperial Family, etc.	507,117.60
Grand Total for the foregoing 15 Sections	3,120,486.10
Total Part I.	9,006,092 42
Only about half the above sum was actually paid, i.e. about	4,000,000.09

Part II. Receipts (Digest of the official Document)

Table A. Customs Surplus for 1921 :-

	Balance
From Maritime Customs HK. Tls	2,968,441.068
„ Native Customs „	202,695.323
Total „	3,168,136.409

Such balance, being carried forward to the account of the revenue for the following year appropriated to meet obligations of the Consolidated Loan service, was not available for the above expenditure.

Table B. Salt Surplus (Oct. 1921-Sept. 1922) :-

Salt Revenue detained by the Provinces (Revenue detained in Manchuria not here included)	22,858,362.68
Salt Surplus released	48,551,190.00
Special items defrayed from the surplus	18,059.190 00

Payments from the surplus by arrangement with the ministry-

1.	Redemption of Exchange Notes from June 1922 at $200,000 per month	$800,000.00
2.	Redemption of Treasury Notes to Banks from Aug. 1922 at $100,000 per month	200,000.00
3.	Repayment to Russo-Asiatic Bank for Advances at $95,000 per month	1,140,000.00
4.	Repayment to Banque de l'Indo-Chine for advances at $9,500 per month	114,000.00
5.	To Yokohama Specie Bank for Sinking Fund of Tenth year Loan at $530,000 per month	6,360,000.00
		8,614,000.00

Thus the surplus available to the government was about $20,000,000 which was however always appropriated in advance.

Table C. Peking Octroi.

Collection of the Octroi yearly $2,240,000 or about $190,000 per month.

Expenses of the Octroi	$ 30,000
Redemption of Special Treasury Notes .	100 000
Middle and Primary Schools in Peking . .	35,000
Reform of the Judiciary in Metropolitan Area.	4,000
Students in Japan.	25,000
	$194,000

making the total disbursement out of the Octroi $194,000 per month. The Octroi was thus not available for the above expenditure.

Table D. Other Receipts of the Central Government (January to September 1922.)

1.	Mining Tax.	$ 191,875.00
2.	Stamp Duty.	570,336.82
3.	Wine and Tobacco Revenue . . .	1,312,102.92
4.	Receipts from Government Property	2,478.91
5.	Income Tax.	10,311.69
	Total	$2,087,105.36
	i.e. per month, about	$ 231,000.00

The above monthly average receipt of $231,000 was the only one available for the government to meet its actual monthly expenditure of about $4,000,000 showing a deficit of $3,700,000 per month.

Main Causes of Financial Deficit.

A monthly deficit of $3,700,000 for the central government is large enough. But, if we add to it the different obligations, foreign and domestic, that were due but unpaid, it would be still more alarming. What are the main causes of the deficit? The lack of support of the provinces is the immediate cause. Revenue directly receivable by the Central government was detained; remittances authorized by the Central government and agreed to by the provinces were not made; in addition, whenever possible, the government was pressed for the payment of new expenses or of arrears due to them.

As shown above in Table B. the salt revenue detained by the provinces, not including Manchuria, was nearly twenty-three million dollars.

The following list shows the districts by which this money was retained with the sum held in each district;

1.	Szechuen (Oct. 1921—Aug. 1922)		$11,677,005.95
2.	Yunnan (Oct. 1921—July 1922) .		1,946,000.00
3.	Canton (Oct. 1921—Aug. 1922) .		6,724,211.99
4.	Hunan (Oct. 1921—May 1922) .		975,762.16
5.	Hupeh (Oct.—Sept. 1922) . . .		547,312.63
6.	Kiangsi (April—Oct. 1922) . . .		293,753.85
7.	Hotung (Shansi) (Feb—May 1922)		
	By General Tsao Kun . . .	$232,416.12	
	General Wu Pei-fu . .	462,000.00	694,416.12
8.	Mancliuria (May—Oct. 1921)-figure not yet available.		
9.	Chekiang		2,000,000.00

The so-called "Direct Receipts of the Central government" were created in 1915 and consisted of a group of taxes, whose composition. however, has varied from year to year. The amount actually paid in 1915-16 differed from that agreed upon by only about 1.3% while in the last year about 3.2% only was paid. The following table gives a summary of this revenue since its creation :—

Fiscal year	*Composition*	*Agreed Amount* (In round figures)	*Actual Payment*
1915	(1) Title Deed Examination fee. (2) Stamp duty. (3) Wine and Tobacco tax (4) Wine and Tobacco Licence duty. (5) Title Deed Tax.	$18,989,000	$18,747,000
1916	(1) to (5) as above, (6) Registration Tax. (7) Butchery Tax. (8) Cattle	$36,600,000	$17,000,000

	Tax. (9) Land Surtax (10) Likin Increment.		
1917 (Jan-June)	(1) Wine and Tobacco Tax. (2) Wine and Tobacco Surtax. (3) Wine and Tobacco Licence Duty. (4) Title Deed Tax (5) Registration Tax. (6) Mining Tax		5,000.000
1917 1918	do	$12,800,000	$10,350,000
1919 and after	(1) Title Deed Tax (2) Registration Tax (3) Mining Tax.	$ 6,300 000	$ 192,000 (1922)

"Remittances to the central government" are payments made by the provinces out of their budget surplus, the amount being agreed to in advance. Such remittances have decreased annually as may be seen from the following table :—

Province	*1915*	*1916*	*1917*	*1918*	*1919*	*1920*	*1921*
Kiangsu	3,121,590	4,712,535	2,789,919	$2,219,865	$1,890,835	1,353,051	—
Chihli	$ 200,000	$ 640,000	$ 500,000	—	—	—	—
Shantung	900,000	$ 1,227,600	$1,200,000	—	—	—	—
Honan		64,492	102.659	—	—	—	—
Shansi	1,000,000	2,097,716	639,957	—	—	—	—
Anhwei		220,000	—	—	—	—	—
Kiangsi	2.039,184	2,410,000	2,160,000	2 160,000	2,160,000	2,064,405	1,941,447
Fukien	1,060,000	1,399,339	960,000	147,303	—	—	—
Chekiang	3,088,316	3,234 447	1,526,115	1,515,662	1,502,652	1,500,000	1'500,000
Hupeh	875,263	1,520,000	—	—	—	—	—
Shensi	600,000	120,000	—	—	—	—	—
Hunan	1,130,000	690,000	—	—	—	—	—
Szechuen	2,678,647	—	—	—	—	—	—
Kwangtung	2,320,000	350,000	—	—	—	—	—
Total	$19,013,225	$18,906,125	$9,878.118	$6.042,730	$5.553,487	$4,917,456	$3,441,447

The lack of provincial support is due to the action of local military commanders who keep all revenues wherever possible to maintain their troops. Excessive military expenditure is in fact the principal cause of the present financial condition. When we have examined the statement of monthly expenditure of the central government we find that expenses of the army represented about 65.35% of the whole. If we look at the budgets for the different fiscal years, we see that military expenditures took up by far the largest share of the revenue, only followed by payments for the loan service, thus :—

Year	*Total Expenditure*	*Military Expenditure*	*Percentage*	*Loan Service*	*Percentage*
1913-14	$642,236,876	$163,775,012	25.500%	$3 738,407	46.8%
1914-15	357,024,030	137.588,077	3.85%	98.564,793	27.6%
1916	471,519,936	142.252 713	30%	137.683,527	29.2%
1916-17	472,838.584	167.317,380	35.6%	142.244 888	30%
1919-20	495.762 888	207,832,482	41 9%	127,962,826	25.9%

According to a report of the Ministry of War, China had at the beginning of 1913 rather under one million soldiers.

In 1919, the chief Northern Delegate to the peace conference in Shanghai gave the number of soldiers at the end of 1918 as about 1,300,000.

Recent statistics put the army strength in 1922 at 188 divisions or roughly 1,900,000 soldiers :-

1. The Boxer indemnity exacted by the Powers by the Peace Protocol of 1909, was H.K. Tls. 450,000,000 (£67,500,000) in amount, bearing interest at 4% per annum, and payable in thirty-nine years. It is secured upon the revenues of the maritime customs and salt gabelle. On China's declaration of war against Germany and Austria-Hungary in 1917, the payment of their shares was suspended and their definite cancellation was confirmed by the Treaties of Versailles and St. Germain. At the same time, the allied powers and America agreed to defer for five years the payments of their shares, payment to be resumed in December 1922. The following table shows the position of the Boxer Indemnity as it stood at the end of September 1922 :-

	Original Amount	*Amount outstanding*
British	£ 16,573,810	£11,186,547.635
American	G$ 53,348,140	£ 2,517,959.679
French	Fr.580,160,935	£15,663,261.162
Italian	Fr.217,868,647	£ 5,882,046.391
Russian	£ 42,685,163	£27,019,467.278
Japanese	£ 11,391,703	£ 7,688,867.634
Belgian	Fr. 69,447,061	£ 1,874,940.884
Portuguese	£ 30,203	£ 20,386.148
Spanish	Fr. 1,107,596	£ 24,565.778
Dutch	Fl. 3,066,005	£ 141,984.127
Swedish and Norwegian	£ 20,568	£ 11,405.480

2. War loans were all contracted during or immediately after the Sino-Japanese War, either to defray the war expenses or to pay the indemnity to Japan. They are three in number thus :-

Title and Date	*Principal*	*Rate of Interest*	*Amount Outstanding*	*Maturity*
Franco-Russian Loan 1895	Fr.400,000,000	4%	Fr.165,438,290	1931
Anglo-German Loan 1896	£16,000,000	5%	£ 7,466,550	1932
Anglo-German Loan 1898	£16,000,000	4½%	£11,196,050	1943

(These loans are secured by the Chinese maritime customs)

(*Continued on page 92*)

American Banks Taking Their Place in China

BY ROY C. BENNETT

ALTHOUGH America has spent far more money in China for philanthropic and educational purposes than have all other nations put together, and although Americans have participated in China affairs politically and commercially the official American attitude toward investments, particularly toward investments having the earmarks of imperialism, has been such that the development of an American banking system in China has lagged. Today the American banking facilities in China are small out of all proportion to the American share in internal and foreign commerce of the country, or in proportion to American interests in this part of the world. Of recent years the part played by American banks has been increasing in importance but, with the exception of exchange banking, American banks in China are in positions to handle only a very small portion of the possible American business here. American commercial interests have not had the banking facilities provided for them that their competitors of other nationalities have. American banks in China, broadly speaking, are foreign exchange institutions. They do a general banking business, but with few exceptions, they major in exchange business.

The history of American banking in China is less than a quarter of a century old. Including Sino-American institutions there are twenty-eight American banks in China. (Since the British colony of Hongkong usually is considered in the commercial field of China, it is referred to as a part of China in this article.) These belong to six organizations, only one of which was in the field five years ago.

The First Came in 1901

The International Banking Corporation is the pioneer of the American banks here, having entered this field in 1901. The Guarantee Trust Company established a branch here almost the same time but its branch was taken over by the International Banking Corporation after a brief period of operation.

The following is a summarized history of American banks in China:

International Banking Corporation: home office, New York; organized under the laws of Connecticut; foreign exchange banking a specialty; branches in China:—

Where located	*Date Established*
Shanghai	1901
Hankow	1907
Peking	1907
Tientsin	1918
Harbin	1919
Hongkong	1901
Canton	1902
Dairen	1923

American Express Company: home office, New York; organized under the laws of Connecticut; banking, shipping and travel; branches China:—

Where located	*Date Established*
Shanghai	1918
Hongkong	1918
Peking	1921
Tientsin	1921

Asia Banking Corporation: home office, New York; organized under the laws of New York; foreign exchange banking a specialty; branches inChina:—

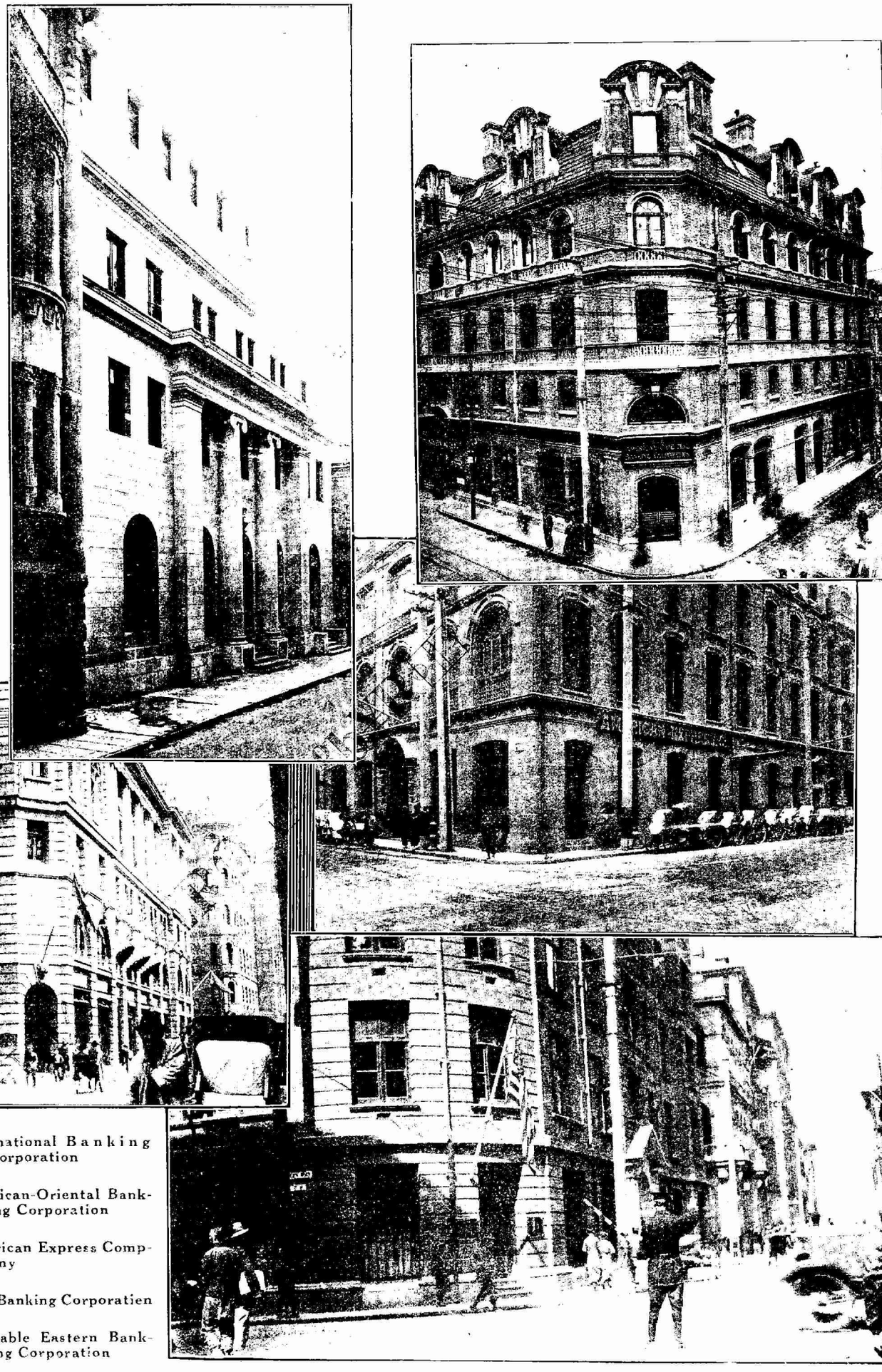
Where located	*Date Established*
Shanghai	1919
Hongkong	1919
Hankow	1919
Tientsin	1919
Peking	1919
Canton	1919

Chinese American Bank of Commerce (Sino-American): head office, Peking; incorporated under a special charter of the Chinese government dated April 12, 1919; receives money on deposit, on call and short notice at current interest rates, and for longer periods on specially agreed terms, issues drafts and makes telegraphic transfers, buys and sells foreign exchange, issues commercial and circular letters of credit, collects bills, checks and other documents, effects purchase and sale of stocks and shares, undertakes the duties of trustee and executor and of custodian of securities and valuables, discounts approved mercantile bills, grants loans on negotiable securities, negotiates and underwrites industrial loans of all kinds; branches in China:—

(*Continued on page 12*)

American-Oriental Bank of Szechuan-Chungking

The Homes of American Banks in Shanghai



1. International Banking Corporation
2. American-Oriental Banking Corporation
3. American Express Company
4. Asia Banking Corporatien
5. Equitable Eastern Banking Corporation

American Banks Taking Their Place in China

(*Continued from page 10*)

Where Located	*Date Established*
Peking	1919
Shanghai	1920
Hankow	1920
Tsinan	1920
Tientsin	1920
Harbin	1921
Shihkaichwang	1921

American-Oriental Banking Corporation (Each of the banks belonging to the American-Oriental organization is a separate corporation, but they are affiliated so closely that they are treated here as belonging to one organization with the Shanghai bank the parent); home office, Shanghai; organized under the laws of Connecticut; general banking; branches in China (affiliated institutions):—

Where Located	*Date Established*
Shanghai	1917
Chungking	1922
Foochow	1922

Equitable Eastern Banking Corporation: home office, New York; organized under the laws of New York; international banking, a specialty; branch in China.

Where Located	*Date Established*
Shanghai	1921

A glance at the foregoing table is sufficient to convince the reader of the backwardness of American banking in the China field. Special notice should be taken of the fact that a large majority of the branches have been opened within the last few years. This rapid growth is accounted for partially by the post-war prosperity, but more particularly by the general growth of American business, and to some degree the interest of American bankers in China.

Factors in Exchange Business

The International Banking Corporation and the Asia Banking Corporation are strong factors in the foreign exchange business of China. These two organizations, especially the former which is the pioneer in the field, have been largely responsible for the internationalization of the competition in foreign exchange business. Their business is not confined exclusively to foreign exchange, but that is their chief interest. The Equitable Eastern branch in Shanghai is especially prominent in the silver business. Enormous shipments of silver are handled through this bank.

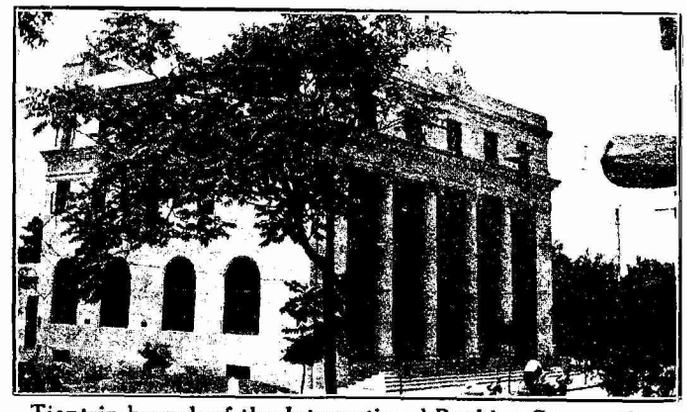
The Chinese-American Bank of Commerce, as is readily seen from the foregoing table, is relatively, young. It entered this field for the purpose of supporting and furthering American and Sino-American enterprises in China, and facilitating the sale of Chinese securities in the United States. The foregoing table indicates the growth of the enterprise in China, and according to the announcement of the management the extension of the business until branches are established throughout the world is contemplated. Chinese recently acquired controlling interest in this bank.

The American Express Company as a banking organization in China is a part of the American Express Company as a shipping, travel and banking organization throughout the world. Largely as a result of the business developed through its travel department, the American Express Company does a substantial banking business, particularly exchange business.

The American Oriental Banking Corporation, which belongs to a chain of affiliated American enterprises in China, interests itself more in the field of domestic banking and interior exchange. This chain of banks is distinctive among the American organizations in China. The American-Oriental Bank of Szechuan, which is in Chungking, the city at the head of Yangtze river navigation, may be considered as occupying the frontier position, as it is the farthest interior of all the American banks in China.

British Have Been Here Longer

In direct contrast with the American progress in the China banking field British banks have held a prominent place here for many years. The Hongkong and Shanghai Bank is the Bank of England for British interests of China. Incidentally it also might be said to be a "Bank of China," since it is the depository of the customs and salt gabelle funds. A bit of interesting history of British banking in China was given recently by Sidney Barton, British consul general, when he delivered an address at the opening of the new building of the Chartered Bank in Shanghai. He said in part;



Tientsin branch of the International Banking Corporation

"The bank's (Chartered Bank) charter dates from 1853 and Shanghai was one of the first branches opened in 1857. They numbered five at that date. They now number 39, scattered round the world from London to New York. Three other banks had opened branches in Shanghai before that date, namely the Oriental, the Chartered Mercantile and the Agra Bank, but not one of these exists to-day, though the site on which we now stand was formerly occupied by the Oriental Bank, from whom the Chartered Bank bought it 30 years ago. The passing of these banks is a reminder to us that the assured position held by British banking institutions in this country to-day has not been lightly won, but is the result of integrity, combined with that patient and sympathetic study of local conditions which alone can earn the confidence of the foreign trader and native merchant to which confidence this gathering bears evident witness. The China market is rich in present and even richer in future potentialities, but it cannot be captured by storm."

Marked progress in the development of American banking in China may be expected in the near future, if political and commercial conditions in China show improvement to a degree sufficient to encourage healthy developments. Banking institutions already represented here have plans for the opening of new branches and general broadening of their fields of activity and influence, and new organizations contemplate entering this field.

(*Continued on page 81*)

Chinese Finances Since the Washington Conference

BY JACOB GOULD SCHURMAN

American Minister to China

A year ago Washington's Birthday, the Washington Conference had just completed its labors, and I was able to report to you the substance of the treaties and resolutions which had been adopted, nearly all of which had to do directly or indirectly with China.

In the interval we have witnessed here the putting into effect of the provisions of these treaties and resolutions. To begin with, although this was almost the latest to be realized, the Chinese customs tariff has been raised from 3½% effective to 5% effective. We have also witnessed the withdrawal of foreign post offices from China. And what the people of China had more at heart than anything else — Japan has withdrawn her military forces from Kiaochow, and the sovereignty of China is once more intact through all the province of Shantung.

It is true that no progress has been made on another point in relation to which the Chinese entertain the deepest feeling, namely, the withdrawal by foreign nations of extraterritorial rights in China. The Washington Conference provided for a commission of jurists to study this subject, and the terms of the resolution provided that the commission should be constituted within three months after the adjournment of the conference, and should submit its report and recommendations within one year after the first meeting.

Dr. Jacob Gould Schurman

Preparing to Relinquish Rights

The United States, Great Britain, and Japan, under their respective treaties with China twenty years ago declared that they were "prepared to relinquish extraterritorial rights when satisfied that the state of the Chinese laws, the arrangements for their administration, and other considerations warrant" them in so doing. The Washington Conference recognized that any wise determination of this matter must be preceded by the ascertainment and appreciation of the facts in regard to the laws and the judicial system, and the methods of judicial administration of China. The duty of the commission was to investigate and appraise these facts. But in addition to their findings of facts the commission was also required to make such recommendations as they might find suitable for improving the existing conditions of the administration of justice in China, and for assisting and furthering the efforts of the Chinese government to effect such legislation and judicial reforms "as would warrant the several powers in relinquishing, either progressively or otherwise, their respective rights of extraterritoriality."

China also declared its intention to appoint a representative to sit as a member of this commission of jurists, and declared herself "prepared to cooperate in the work of this commission, and to afford to it every possible facility for the successful accomplishment of its tasks."

It is now a year since the Washington Conference adjourned, and this commission of jurists has not yet even been appointed. You ask why has there been such delay. I reply it has been due to the request of China. Whatever the reasons for this delay, I think that from the point of view of foreign nations it has been very unfortunate. I express no opinion, however, on the merits of the question which this commission of jurists would have to decide, but I do take the liberty of observing that the continuance or non-continuance of consular jurisdiction is a matter of the gravest moment to the nationals of foreign powers now in China. The formal raising of the question of the abolition of consular jurisdiction at the Washington Conference has created uncertainty, not to say uneasiness, in the minds of foreigners here, which steadily increases, nor is this at all unnatural when we consider that it is their lives and properties and rights at stake. It is a point in relation to which uncertainty should no longer be permitted to continue, and I earnestly hope that the powers after consultation with China may make arrangements for the constitution of this commission of jurist without further delay.

Special Conference

The Washington Conference also provided for the meeting in China, within three months after the coming into force of the nine power treaty on a day and at a place to be designated by the Chinese government, of a special conference consisting of representatives of the signatory powers and of such other powers as may adhere to the treaty. The first business of this special conference is to prepare the

way for the speedy abolition of likin and the fulfillment of the other conditions laid down in the treaties between China and England, Japan, and the United States, respectively, with a view to levy the surtax provided for in those treaties. This special conference is also to consider the provisions to be applied in the meantime prior to the abolition of likin and the fulfillment of the other conditions just referred to. And it is directed to authorise the levying of a surtax on dutiable imports into China at a uniform rate of 2½% *ad valorem*. The treaty, however, contains the significant provision that the surtax thus levied by the special conference shall be subject to quite extraordinary restrictions. It declares that it shall be "as from such a date, for such purpose, and subject to such conditions as it (the special conference) may determine."

The special conference is also required to formulate for the approval of the powers concerned a detailed plan for the constitution of a board of reference to which shall hereafter be referred questions and difficulties arising in connection with their general policy to stabilize conditions in the Far East, to safeguard the rights and interests of China, & to promote intercourse between China and the other powers upon the basis of equality of opportunity.

As has already been stated, this conference is to meet in China three months after the ratification of the nine power treaty. All the nine powers have now ratified this treaty with the exception of Portugal, and France as I judge from newspaper reports, has the matter under consideration at the present time.

The meeting of this special conference and the coming of the commission of jurists on extraterritoriality are the only steps still needed for the complete execution of the programme adopted at the Washington Conference on behalf of China.

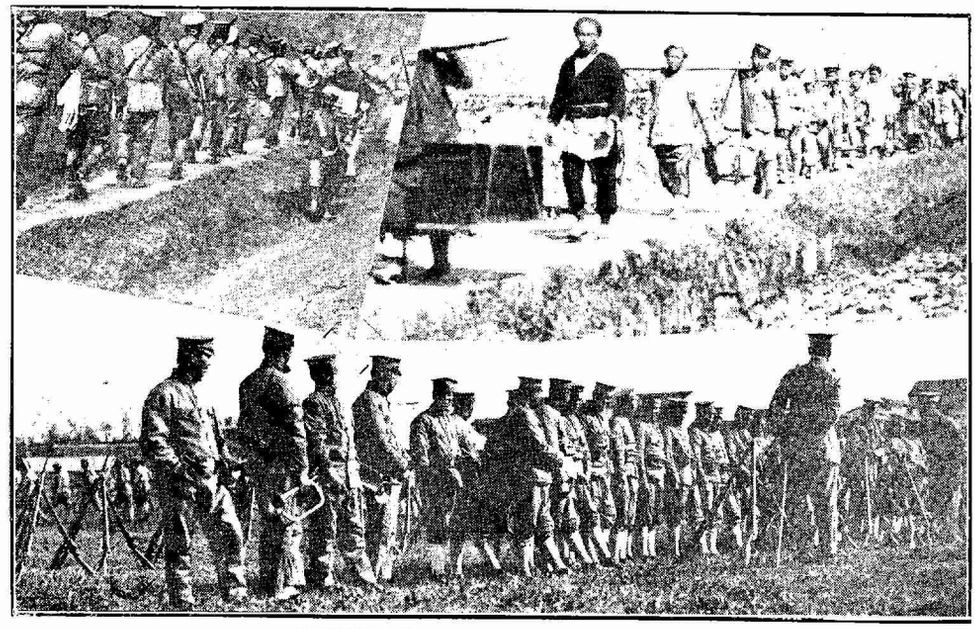
China and the Powers

This is what the powers assembled in Washington have done for China. It was a very considerable achievement, but the repsesentatives of the powers meeting in Washington were all well disposed toward China and a great wave of altruistic sentiment on behalf of China swept over the United States from the Atlantic to the Pacific. There was no place in the world so favorable to China for the holding of the conference as Washington, and I think it is a safe assertion that the delegates assembled in Washington could not have done on behalf of China more than they actually performed. They were determined not only to respect the sovereignty, the independence, the territorial and administrative integrity of China but also "to provide the fullest and most unembarrassed opportunity to China to develop and maintain for herself an effective and stable government." After the lapse of twelve months we may now inquire what progress China has made in developing "an effective and stable government." But before coming to that question let us first briefly consider two or three related matters of great importance.

Disbandment of Troops

On one point with reference to which the conference passed a specific resolution China has certainly made no progress at all. I refer to the ninth resolution of the Washington Conference regarding the reduction of China's military forces. The resolution of the conference provided "that this conference express to China the earnest hope that immediate and effective steps should be taken by the Chinese government to reduce the aforesaid military forces and expenditures."

Disbandment of surplus soldiers has been a plank in all reform programmes in China since that date. President Li Yuan-Hung made it the burden of his address on assuming the presidency. No positive results, however, have been achieved. On the contrary, recruiting has gone on more actively than ever. Hosts of young men have been taken from cities, and especially from the country to be made soldiers, while the discarded material has gone to augment the bandit class.



WHERE CHINA'S MONEY GOES

Chinese soldiers, the support of whom causes such a drain upon the government treasury that progress in financial rehabiliation is negligble

It is reliably estimated that at the present time there are from nine hundred thousand to one million and a quarter men in the armed forces in China. Only a small percentage of these indeed is under the control of the central government which probably contributes to the support of less than ten percent of the whole. The other ninety percent depend for their support upon various military leaders or tuchuns. In addition there are some hundreds of thousands of armed bandits in the country between whom and self-supporting soldiers it is hard to make a just distinction, for the soldiers of today may be the bandits of tomorrow, and the bandits of yesterday the soldiers of today. Under the present military situation of China the irresponsible military commanders with their personal armies may be fairly described as manufacturers of bandits. What I mean is this: Groups of armed men who start on a military career as legitimate soldiers, when they find

themselves in consequence of the death or the political or military downfall of their original leaders in the disastrous plight of being military orphans, will not go back to the coolie class from which soldiering redeemed them, but set up for themselves as military units, and under leaders of their own, rob and loot and burn and squeeze for themselves. These robber bands may also, as fighters, become formidable rivals of the more regularly constituted military forces of which they were formerly members. And banditry has steadily increased in China in recent years, reaching during the last twelve months even alarming proportions.

Since the Washington Conference passed the resolution urging China to disband her forces we have witnessed here four civil wars, with the theatres of operations in Chihli, Kwangtung, Szechuan, and Fukien provinces. Each of these wars was a struggle for the political and military control by rival leaders. Nothing was settled by the fighting, and in every case the danger of a renewed outbreak is not remote. Meanwhile the people in all these theatres of war have endured untold losses, hardships, and suffering.

Reunification of China

Since the adjourment of the Washington Conference there have been one or two intervals when the conditions seemed unusually favorable for a reunification of the divided provinces of China. But the opportunities were not embraced and they quickly glided by. In one of his essays Lord Bacon says that opportunity was by the ancients likened to an old man with a bald head, having only one lock of hair in front: if that point of advantage is not seized promptly the occasion passes by and there is nothing tangible henceforth to grasp at. Whether the failures in China to bring about unification in the past year are due to her public men or to refractory conditions which no statesman could have controlled need not now be discussed. The result certainly is that the country is more divided than ever.

We know however, that the darkest hours often precede dawn and it may be that measures are even now under consideration which will form the basis of a re-unification of the country. I understand that leaders in parliament, which has now been in session seven months, are of the opinion that the adoption of a constitution will furnish a basis for re-unification, and in no distant time lead to that happy result. Let us hope that the legislators may be true prophets. In the meantime the fact remains that no constitution has been adopted and that to the eye of unsympathetic foreigners the prospect seems far from hopeful.

Financial Rehabilitation

No progress has been made since the adjournment of the Washington Conference in the financial rehabilitation of China. Public debts, principal and interest alike, remain unpaid, and creditors, domestic as well as foreign, clamor for what is due them. The Minister of Finance must have a most unenviable position, for while the national treasury is empty he must see, and do the best he can to mollify, a great multitude of insistent, and in some cases, irate creditors.

Yet if China could in the words of the Washington treaty "develop and maintain for herself an effective and stable government" her national financial problem would be far from hopeless. For China is a country of great and untapped natural resources with anually increasing trade and commerce and with the lowest rate of taxation in the world, Mr. Padoux has recently shown in a very lucid and instructive memorandum that the public debts of China, domestic and foreign, (not including railway debts which the railways themselves could easily manage under a stable and effective government) is under nineteen hundred million silver dollars, or $4.75 per head of the population. This is small in comparison with the corresponding per capita figures for other countries, namely: $50 for Japan, $190 for Italy, $312 for Belgium, $1,310 for France, $1,440 for Great Britain, and for the United States (federal debt only) $ 433. Mr. Padoux assures us that the service of the secured Chinese debts, both domestic and foreign, required at the most ninety-five million dollars a year, and that the consolidation of the unsecured debts may require for some years forty-five million dollars a year;—or a grand total of one hundred and forty million dollars a year for the service of all debts, secured and unsecured, domestic and foreign.

Now according to Mr. Padoux if the 2½% surtax be added to the other customs receipts the customs revenues alone would provide interest and amortization payments on all these debts, and leave after three years (when there would be a slight shortage) a surplus beginning in 1927 of $ 3,100,000, in 1930 of $ 15,220,000, in 1940 of $ 22,186,000 and in 1944 the debts all being paid off, of $ 116,300,000. Under Mr. Padoux's plan for the financial reconstruction of China and the consolidation of China's present indebtedness all other sources of revenue beginning with 1924 would be turned over unimpaired and unrestricted, and without foreign control of any kind to China herself, while the Customs revenues, remaining under foreign control, woud be devoted to the service of the secured and unsecured, foreign and domestic, national debts, with the proviso that all net surplus of customs revenue after caring for the service of these debts should also be turned over to the Chinese government. The Chinese government would recover at once full rights over all its sources of revenue excepting the customs revenue. The foreign control of the customs service would, of course, also cease as soon as the debts which are a first charge against it have been paid off.

The Use of Increased Revenues

There is one important stipulation in Mr. Padoux's scheme. It is that *all* increases of the Chinese tariff, —not only the increase from 3 1/2 % effective, to 5% effective but also the increase resulting from the 2 1/2 % surtax,—are to be received by the customs administration in one lump sum. A merchant, Mr. Padoux says, who imports in 1922 articles valued at $1,000 will not be charged by the customs $35 for the old tariff plus $15 for the increase from 3 1/2% effective to 5% effective, plus $25 for the 2 1/2% surtax; he will be charged a lump sum of $75, and the entry in the books of the customs will be for that amount. No doubt this arrangement would be advantageous as a matter of bookkeeping and I see no difficulty in applying it so the systems increment gained by the increase from 3 1/2 to 5% effective. But there is a real difficulty in bringing the proceeds of the 2 1/2% surtax into the same arrangement. For, as I have already pointed out, according to the Washington treaty it is the special conference that authorizes "the levying of a surtax on dutiable imports as from such date, for such purpose, and subject to such conditions as it may determine."

The consent of that special conference, therefore, would be necessary to secure the absorption into the

(Continued on page 80)

Another View on Consolidation of Debts

BY FREDERICK W. STEVENS

COPIES of the statement and plan presented by M. Padoux, adviser to the Chinese government, for consolidating and refunding China's indebtedness, have been eagerly sought for and will be very useful to those interested in the subject whether they agree to the plan or not. It contains valuable information to be taken into account in connection with any plan that governs.

The plan contemplates taking in the present *unsecured* foreign and domestic debts and refunding them all on the security of the customs revenue after the 2½ percent customs surtax conditionally provided for by the Washington Conference, becomes effective, the lien of the new bonds to rank next to present liens thereon, securing bonds issued prior to 1900, the Boxer Indemnity payments, the Reorganization Loan bonds of 1913 and the domestic loans consolidated in 1921.

The idea of giving a preferential lien to the foreign debts seems to have been considered and rejected by M. Padoux, for he presents a brief argument in favor of giving the foreign debts no better security than the domestic debts. His treatment of this very important subject is by no means exhaustive and it remains to be seen whether the security under his plan will be deemed to be of such a character as to allow the sale of the new bonds in foreign markets, thus inducing the holders of the foreign debts to forego a preference over the domestic debts which a logical treatment of the matter might give to them. It must be borne in mind that all the figures showing revenue are estimates merely, to be guaranteed by no one, and are liable to be decreased by reduced imports due to disturbed conditions in China or to other causes; and that the large sums required to meet the prior lien gold payments and the gold payments to be made on the proposed new bonds may prove to be underestimated by M. Padoux, by reason of a fall in the price of silver. These factors are referred to in speaking below about the margin of security after meeting the interest on the proposed new bonds. This whole subject is one to be dealt with, not by China alone but by the Special Conference, composed of delegates from all the powers, including China, to convene here at a date not yet known (because of delay by France and Italy in ratifying the Washington treaties, which provide for the Special Conference), and empowered to determine the conditions and the date upon which the customs surtax shall become effective.

Plans for Issuing Bonds

M. Padoux estimates that new bonds of a total face value equal to *625 million Chinese dollars* will be needed (and sufficient) to cover the foreign and domestic unsecured debts to be refunded and the necessary discounts in obtaining the acceptance of the new bonds by the present creditors. He proposes that the new bonds be issued in Chinese dollars, in gold dollars, in yen, in pounds sterling, and in francs, to the respective amounts required to cover the present debts payable in those respective currencies, all the new bonds to be on a parity (I assume) so far as security is concerned, and that the new bonds shall all draw interest at the rate of 7% upon their face value and be given in exchange for present obligations at varying prices depending upon the rates borne by those obligations, or the rates at which they were issued, for instance, in the case of debts issued at 8% or over, the new 7% bonds to be taken by such creditors at 87½. This important matter of price or discount bears on the total amount of new bonds that will be needed and is not one that can finally be dealt with on any general rule nor in advance of the dealings with the present creditors, who will of course have something to say on the subject.

M. Padoux has, without much explanation of the course, omitted from his calculation of unsecured indebtedness, all railroad indebtedness, funded and unfunded (and I believe all telegraph indebtedness, which alone amounts to a tidy sum). On account of the huge total reached without including any indebtedness originating with the Ministry of Communications and on account of the narrow margin of security, from the bond selling standpoint, presented by his plan, there was naturally a strong incentive to leave to others the handling of the $60,000,000 or thereabouts of overdue miscellaneous indebtedness of the railroads and telegraphs, as well as the further large sum, probably exceeding that amount, represented by long term bonds nominally secured on the railroads but actually insecure by reason of political conditions and the methods of militarism in handling railroad revenues and in non-maintenance of the railroad properties. (Bonds issued in 1911 on the security of the once well-regarded Peking-Hankow railroad earnings, are now in default for two successive semi-annual payments). Whether the holders of these classes of indebtedness will complacently accept this idea is at least doubtful, depending in part, no doubt, on the progress made when the Special Conference meets in accomplishing disbandment and restoring the railroads to normal operation.

Public Opinion Is Needed

The plan calls for an annual interest charge, not including the railroad indebtedness, of 43,750,000 Chinese dollars, and when amortization begins in 1932 (to be completed in 12 years) that sum grows to $77,814,000 annually.

Turning to the very helpful schedules presented by M. Padoux, it appears that the customs revenue for 1923, after allowing for increase due to the "effective 5 percent" and to development of trade, is estimated at $88,000,000. For 1924, assuming the surtax becomes effective January 1, 1924, the estimate is $121,000,000; in 1925, $124,000,000; and in subsequent years until and including 1927, $3,000,000 increase per year. But there are the prior liens to be deducted, the annual payments on that account requiring in 1923, $94,250,000; in 1924, $91,500,000; in 1925, $88,700,000 and so on. The result is, from the standpoint of the proposed new bonds, that there is nothing left in the first four years, on the contrary there are deficits before reaching the proposed new bonds; and for the succeeding three years to and including 1928, the margin above the interest on the proposed new bonds is small (from $2,100,000 to $9,650,000) from the bond selling standpoint. It is not any too satisfactory thereafter for several years.

(*Continued on page 94*)

The Financial Reconstruction of China and the Consolidation of China's Present Indebtedness

BY G. PADOUX

Adviser to the Chinese Government

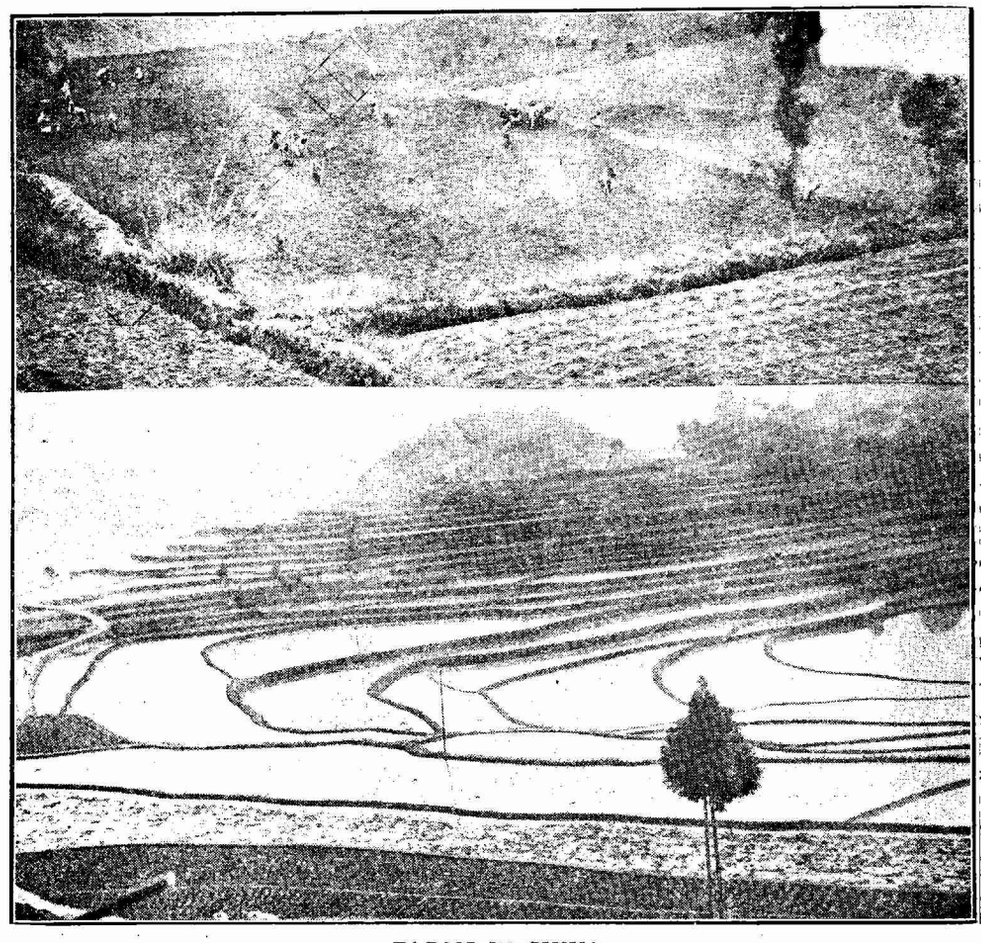
The financial reconstruction of China is not primarily a financial problem. It is a constitutional and political question, the solution of which lies in the readjustment of the relations between the provinces and the central government.

The Manchu regime had evolved an elaborate and well balanced system of internal administration which left to the provinces a large autonomy, whilst affirming the superior authority of the throne. All officials down to the magistrate were appointed from Peking, under two very strict rules, viz. : (1) that no person could hold office in his native province, and (2) that the term of office was limited to three years, with only one possible extension. The government was very careful to select as viceroys or governors personages devoted to the imperial family, and, in the distribution of offices, to keep the balance even between Chinese and Manchus, as well as between the various provincial parties or clans. The consequence was that the governing body of a province would always consider themselves as representing the Central government, and would not think of identifying with the population under their control, or supporting provincial interest against imperial prerogative. Their task was facilitated by the granting of wide powers which enabled them to settle direct most of the local question. Once the Imperial authorities in Peking were satisfied with the loyalism of the holders of the main official positions, they would leave them a free hand in the administration of the province, provided only that the taxes and provincial contributions be duly remitted every year to the central treasury.

When additional revenue was required for meeting new obligations, international or domestic, an equitable understanding would always be reached, the provinces showing the same consideration for the needs of the central government as Peking would show for the local interests.

The foundations of the system were shattered by the 1912 revolution. The whole structure was built on the devotion of the viceroys and governors to the emperor. The emperor abdicated. Most of the high officials resigned or disappeared. A provisional republican constitution was promulgated which treated China as a highly centralized state, thus ignoring the main constitutional problem of the country. The central government was left unarmed, with practically no power of control over the provincial authorities, whilst the provinces were being given local assemblies through which they could develop separate tendencies. The old machinery kept in motion for some time, but soon the provincial chiefs, whether civil governors, or general inspectors, found that it was more profitable to side with the provinces than with the central government, seeing that in fact the money was coming from the provinces and that it was easier for the provinces to live apart from the central government than for the central government to dispense with the support of the provinces.

Thus developed the present condition of affairs. It cannot improve materially unless the nature of the relations between the central government and the provinces be clearly defined (which is the constitutional side of the problem), and unless the new distribution of power between the provinces and the central government is accepted by the provincial authorities or forced upon them (which is the pro-



FARMS IN CHINA

ABOVE—Peanut field in West China; BELOW—Terraced rice field of Szechuan province. These lands, as others in China, are in a high state of cultivation, but the number of people each small farm must support is so large that the question of raising the rate of taxes, which now seems extremely low, becomes serious.

blem). No reduction of the army, no disbandment of the superfluous soldiery is worth being undertaken so long as the tuchuns, civil governors, or other such provincial chiefs can defy the orders of the government, seize the revenue, and recruit fresh troops at their own will. Neither can the finances of the government be put on a sound basis if the proceeds of government taxation continue being appropriated by the local military or civil authorities.

The Comparative Situation of China.

Happily for China, the resources of the country are so great and the charges so light that even a moderate improvement of the political situation would remove many of the financial difficulties.

With more than 400 million inhabitants, it is doubtful whether the governmental, provincial and local taxation in China proper exceeds 500 million dollars a year, an average of $1.20 per head. It is almost nothing when compared with taxation in the other parts of the world. Precise figures cannot be worked out because of the fluctuations in the rates of exchange and because the budgets of most of the foreign powers are still subject to important variations from year to year. But a rough calculation, which is quite sufficient for our purpose, shows that the annual *per capita* revenue derived from taxes and duties in the following countries, reduced into silver, amounts to:

Great Britain	$ 170
France	$ 90
Italy	$ 24
Belgium	$ 30
United States (Federal taxation only)	$ 120

Of course, fully developed states of Europe and America can pay higher taxation than China. But turning to the countries of Asia which are lying on the coast of the Pacific and whose conditions may compare with those obtaining in China, the figures are, *per capita:*

Japan	$ 16.00
Philippines	$ 7.50
French Indo-China	$ 5.50
Siam	$ 9.50
Dutch East Indies	$ 15.00

The Chinese average of $1.20 is about one fifth of the average taxation paid in French Indo-China, and one eighth of the average taxation paid in Siam. Yet, the population of China is more industrious, more hard working and has more resources, agricultural, commercial, industrial and mineral than the population of French Indo-China or Siam. The Chinese nation feels the burden of taxation not so much because it is excessive as because the system is cumbersome, because it works injustice on many classes of citizens, because it is made the pretext for all sorts of malpractices, and above all because the taxpayer is given very little in return for what he pays. If slightly reformed and properly controlled, and if its proceeds were used for the real benefit of the people, a net revenue of nearly 450 million dollars could easily be collected.

National debts are at present a crushing burden on most of the European and American powers. Their *per capita* ratio reaches appalling figures in several countries:

Great Britain	$ 1,440
France	$ 1,310
United States (Federal debt only)	$ 433
Belgium	$ 312
Italy	$ 190
Japan	$ 50

Now, the present public debt of China, domestic and foreign (exclusive of railway debts which are not included in the above foreign statistics) is under 1,900 million silver dollars, or *Four Dollars Seventy-five cents* per head, two hundred and fifty times less than the *per capita* ratio of the British and French public debt.

The service of the secured Chinese debts, domestic and foreign, requires at the most 95 million dollars a year. The consolidation of the unsecured debts, as shown below, may require during the next years from 40 to 45 millions a year. That is to say a maximum grand total of 140 million dollars per year, leaving 300 millions, or 25 millions per month, for the governmental, provincial and local expenditure. This is quite enough for making a start in efficient administration and balancing a reasonable budget. More money will of course be soon required for police, education, hygiene, agriculture, trade and otherwise fostering the economic development of the country. A few reforms in taxation would at once bring in the necessary revenue, seeing that for every *ten cents* increase in the *per capita* ratio the Treasury would receive an additional 40 million dollars a year.

The Unsecured Indebtedness

The first step towards financial reconstruction is the settlement of the present unsecured indebtedness of the Chinese government. For some of these debts the creditors have succeeded in getting irregular payments. For most of them neither interest nor capital had been paid for one year or more. The situation affects the local financial market, since all the Chinese banks are on the list of the creditors and are badly in need of the money owing to them. It affects still more the credit of China at home and abroad. It blocks every possible attempt of the Chinese government to raise loans for constructive purposes at reasonable rates. It puts the ministry of finance in the most difficult position. Some sort of remedy must be found if national bankruptcy is to be avoided.

In the statistics compiled in October 1922 by the ministry of finance, the unsecured indebtedness is reported as follows, interest being calculated up to the end of the year 1922:

Unsecured domestic loans	$ 132,560,000
Unsecured foreign loans	239,930,000
Chinese Banks—short term debts as approved by the Redemption Commission	34,500,000
Treasury Notes	33,700,000
Chinese Banks—short term debts	48,250,000
Total	$ 488,940,000

To this total must be added:

The amount due under renewed Austrian Loan agreement. The agreement seems to have been cancelled, but the money is nevertheless still owing to the present bondholders	£ 5,200,000
Interest on the whole of the unsecured debt up to July 1923, no settlement of the consolidation question being possible before that date	$ 25,000,000

The calculations for exchange in the statistics of the ministry of finance are not quite safe. The sterling is reckoned at 8 dollars to the pound, whilst the present rate is 9. The rate adopted for the yen is

also too low. A conservative estimate would work as follows :

Principal

Debts in silver dollars or Taels reduced into silver dollars			$234,588,000
Debts in sterling		£ 3,136,000	
Plus Austrian Loans		£ 5,200,000	
Total		£ 8,336,000	
at $9 to the pound			75,024,000
Debts in francs		Fcs 167,500,000	
at fcs 7 to the dollar			23,927,000
Debts in yens		Y 162,655,000	
at $0.90 to the yen			146,389,000
Debts in gold dollars		GD 12,352,000	
at $1.90 to the G.D.			23,468,000
Total			$503,396,000

Interest

Interest up to December 31st 1922	$ 41,000,000
Interest from January to June 1923	25,000,000
Grand Total	$569,396,000

The unsecured indebtedness of the Chinese government, as it will stand by the middle of the year 1923 may be accordingly put, in round figures, at 570 million dollars. A large part of the capital of such indebtedness has already matured or will soon mature. Interest is also in arrears. There is no hope of finding sufficient money to satisfy the creditors according to the original contracts. It might even prove impossible to pay them were time only granted, because part of this money has been borrowed at such high rates that the accumulated interest would exceed the future available resources of the government. Consolidation is imperative as the only way out of the difficulty.

Consolidation, as a general proposition, means the redemption of the existing debts through the issue of new bonds, the substitution of new bonds for the ones involving :

(1) an extension of time for the short term debts,

(2) a reduction of interest in every case where excessive rates have been charged.

(3) as a compensation for such extension of time and reduction of interest, the granting of adequate securities.

Consolidation will be a success if sound and reliable security is offered. Creditors whose debts are overdue, or whose debts are shortly to mature, and creditors entitled to high rates of interest under their contracts will certainly agree to accept, in exchange for what is due to them, long term bonds bearing reasonable rate of interest if payment of interest and repayment of capital are fully guaranteed, that is to say if the pledged revenue is sufficient and sufficiently controlled to secure complete payment of coupons and amortization of the new bonds on due dates.

The Customs Revenue

The better the security China can offer her unsecured creditors, the better the terms of the consolidation will be for the Chinese government.

The best security in China is the revenue of the maritime and native customs under the control of the inspector general.

Is it possible to secure the consolidation of an indebtedness of about 570 million dollars on the customs?

In order to answer the question, let us figure what the future net revenue of the customs is likely to be. By *net revenue* is meant the revenue available for loans and indemnities after the ordinary and extraordinary administrative expenses of the customs service have been met.

The net revenues of the customs for the year 1922 amounted in round figures :

For the Maritime Customs, to . Sh. Taels 52,150,000
For the Native Customs, to . . Sh. Taels 4,200,000

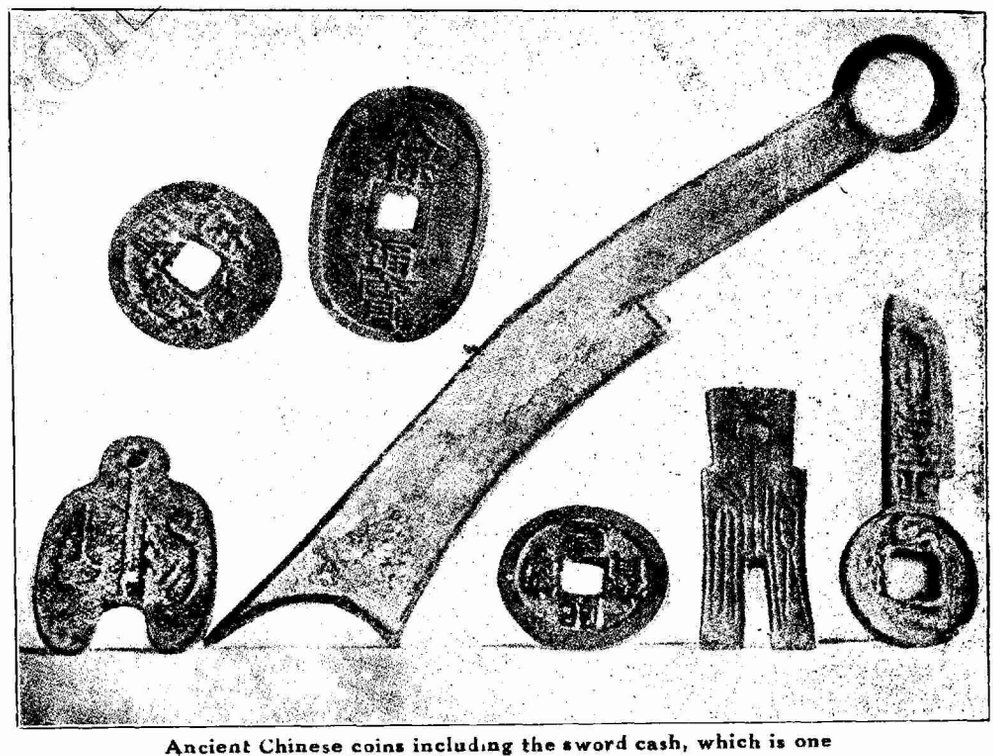
Total . . . . . Sh. Taels 56,350,000
or in dollars at the rate of 73 . . $ 77,191,700
say *Seventy-seven million dollars.*

The increase to the full 5% which has come into force on the 17th of January 1923 will work only during part of the present year, all goods having left foreign ports prior to such date being charged the old tariff. It may be expected however to give 8 million dollars in 1923 and 10 million dollars in 1924.

The raising of the import tariff from 5 % to 7 ½ % for ordinary goods and to 10 % for luxuries may yield 28 millions. As it is unlikely that it may work in 1923, let us reckon it from 1924 only.

Besides, there is a gradual increase of revenue resulting from the natural development of trade. From 1911 to 1922 the average increase has been two million taels a year. From 1917 to 1922 it is more than three million taels a year. From 1919, after the last tariff revision, to 1922, it is over four million taels a year. It is steadily increasing, and with a tariff to be raised from 5% to 7 ½% and 10% we may safely anticipate it to be three million dollars (Taels 2.200,-000) a year for the next five years (from 1923 to 1927). After 1927 we may figure it for another ten years at two million dollars a year.

(*Continued on page 58*)



Ancient Chinese coins including the sword cash, which is one of the earliest pieces of money

Opposition to Padoux's Consolidation Plan from Americans

THE American commercial voice in China has been raised in protest against any debt consolidation plan considered by the Chinese government that would leave unsecured Ministry of Communications obligations. The American Chamber of Commerce in Peking took the initiative in recording opposition in this connection recently when the debt consolidation plan proposed by G. Padoux, adviser to the Chinese government, was announced through the publication of the report prepared by Mr. Padoux. The Peking American Chamber of Commerce adopted a resolution, a copy of which was sent to the central office of the Associated American Chambers of Commerce in China and endorsed.

The text of this resolution follows:

Resolution

(Adopted by the American Chamber of Commerce of Peking on March 21, 1923)

1. *Whereas* the Powers represented at the Washington Conference unanimously approved, under date of February 4th, 1922, the so-called "Nine-Power Treaty Relating to Chinese Customs Tariffs," which treaty, when duly ratified by the Nine Powers provides for a Special Conference empowered, among other things, to authorize the levying of a surtax of 2½ per centum ad valorem on dutiable imports as from such date, for such purposes, and subject to such conditions as the Special Conference may determine; and

2. *Whereas* there is a definite opinion current among Chinese officials (which opinion has been developed into a plan for the financial reconstruction of China by Mr. G. Padoux, an adviser to the Chinese Government and submitted to the National Commission for the Study of Financial Problems, as well as presented to the general public in the form of a pamphlet) to the effect that, with the contemplated increase of the Customs Tariff from 5 to 7 ½ per cent ad valorem, together with the normal growth of China's foreign trade, the net surplus of the Maritime and Native Customs, supplemented during the first four years by comparatively small amounts from other sources, such as the Salt Gabelle, will not only enable China to meet existing obligations secured by the Customs but will also permit the consolidation and repayment of the entire unsecured indebtedness of the Chinese Government, a large part of which is in default; and

3. *Whereas* this opinion, as brought out in the Padoux refunding plan, explicitly excludes all indebtedness of the Ministry of Communications of the Chinese Government on the ground that the Railways, Telegraphs and other Government Utilities provide sufficient security for the loans and other obligations contracted by the Ministry of Communications; and

4. *Whereas* notwithstanding the fact that several loans and other obligations of the Ministry of Communications have for sometime been, and still are, in default, the general public is not aware of the true financial status of this Ministry, therefore.

Be it Resolved:

1. *That* the American Chamber of Commerce in Peking declare that, in vew of the figures following, which present the financial position of the Ministry of Communications, the Padoux plan or any other proposal based upon the contemplated 2½ per cent Customs surtax which excludes the obligations of the Ministry of Communications, is unjust and entirely unacceptable:

		Silver Dollars
A.	*Net Operating Revenue*	
	Chinese Government Railways, Year 1920	48,650,000.—
	Chinese Government Telegraphs, ,, 1918	4,600,000.—
		53,250,000.—
	Deduct:	
	Non-commercial bookkeeping revenues,	8,000,000.—
	Unpaid Government Telegrams	2,100,000.—
	Effective net revenue available for Loan Amortization and Interest	43,150,000.—
B.	*Foreign Railway and Telegraph Loans*	
	Foreign Railway Loans,	409,100,000.—
	Foreign Telegraph Loans,	21,300,000.—
	Total Foreign Railway & Telegraph Loans,	430,400,000.—
	Interest for 1923,	24,460,000.—
	Amortization of Principal Year 1923,	33,090,000.—
	Railway & Telegraph Loan Service	57,550,000.—
	Deficit in Loan Service 1923,	14,400,000.—
C.	*Other Indebtedness Entirely Unsecured*	
	Foreign Creditors for Materials,	40,000,000.—
	Domestic Creditors for Loans,	68,800,000.—
	Indebtedness Entirely Unsecured,	108,800,000.—

(Note)

(These figures do not include several loans contracted by the Ministry of Communications, the service of which loans have now been taken over by the Ministry of Finance and are included in the Padoux Refunding plan)

2. *And that* the American Chamber of Commerce in Peking record its belief that during the current year the Ministry of Communications will not only fail to meet its obligations for the payment of interest and principal on Government Railway and Telegraph Loans but will also be unable to reduce or even pay interest on over 108 million silver dollars of other indebtedness; and

3. *That* the American Chamber of Commerce direct attention to the fact that these 108 million silver dollars of entirely unsecured indebtedness of the Ministry of Communciations includes 40 million silver dollars representing the accounts of American and other foreign firms for materials purchased by the Railway and Telegraph Departments of the Ministry in order to insure continued operation of the Government Utilities; and

4. *That* the American Chamber of Commerce in Peking call attention to the fact that these legitimate, overdue and entirely unsecured accounts of American and other foreign firms would, under the Padoux plan, be excluded from the benefits of the refunding operations while numerous large loans made at high interest rates for speculative purpose would be covered; and

5. *That* the Secretary of this Chamber be instructed to incorporate this resolution in the records of the Chamber and to send copies of this resolution to the American Legation and to the Associated American Chambers of Commerce in China.

Reorganization of China's Domestic And Foreign Loans

BY LI CHIN-MING

(A Translation)

TWO plans have been suggested for the reorganization of China's national debts: (a) group scheme; and (b) comprehensive scheme.

By a group scheme is meant the consolidation of the debts in each group separately, such as, for instance the division of the foreign loans and domestic loans into two separate groups. Even the domestic loans themselves have to be differentiated, for they do not all fall into one class. Some of them have been given reliable securities, but the present receipts are not sufficient to cover the payment of the principal and interest charged upon them, while others never had good securities from the beginning. The nature of these loans being different, the methods for their consolidation should also be different.

The problem of foreign debts is even more serious and the amount involved is much greater. As an international problem, if we should deal with all the foreign debts together, it may mean placing all the national resources within foreign control, which no matter under what name exercised, either international control or liquidation of debts, will reduce China to a state like India and Egypt. As a domestic question, on account of popular agitation the validity of some of the loans concluded with Japan, such as the forest and mining loan, the telephone loan, the railway loans, war participation loan, etc. has been disputed. To lump these loans together with other European and American loans and give them the same treatment will surely rouse popular opposition. The foregoing are arguments in favor of dealing with the different groups separately.

By a comprehensive scheme is meant that all China's domestic and foreign loans should be dealt with in one big comprehensive scheme. Those who stand in favor of this scheme will readily admit that the nature of the Japanese loans is in fact different from the European and American loans, and that the uses to which the proceeds of the aforementioned Japanese loans were devoted might have been properly subject to public criticism; yet from the point of view of the lenders, the obligation of the government is the same, inasmuch as it has in each case received cash from the creditors.

On account of the default in the payment of the principal and interest, the banks concerned have demanded that they should be given priority on the 2½% customs surtax. As Japanese interest in these loans is very great, it appears that the most that can be expected is that the Japanese would take similar action with the other powers in demanding that the customs surplus arising from the surtax should be assigned to the service of the loan obligations. If Japan does not bring up any condition to block the application of the surtax to the foreign loan service, it certainly can hardly be expected that the Japanese government would agree to any arrangement which will put the Japanese loans in an inferior position to the European and American obligations.

The suggestion that the domestic and foreign loans should be dealt with together is simply one of convenience, in view of the fact that the sources of revenue which can be assigned as security are exceedingly limited. Besides the limited amount of salt surplus which is needed for administrative expenses, the customs surplus is the most reliable security. If the customs surplus is assigned to the service of foreign loans, domestic loans will be either left without security or be left inadequately secured. And such discrimination will greatly disturb the financial market of the country.

In view of the above considerations it appears that the comprehensive scheme is the one to be favored.

Total Amount of Loan Obligations

In order to draft a comprehensive scheme for the reorganization of China's debts it is, of course, necessary to know first what is the total amount of her loan obligations. China's foreign debts, not including the indemnity and loans directly secured upon the customs and salt revenue, amount to about $220,000,000 (based upon statistics compiled in October 1922, by the ministry of finance).

In addition to the above there are also the following:—

Short term loans contracted from native and foreign banks which have been passed by the commission for the redemption of domestic and foreign short term loans (excluding $35,000,000 already redeemed by the ministry of finance.

In addition to the above there are also the following:

Ninety-Six Million Bonds	$23,800,000.00
Loans not secured on the Salt Revenue	37,000,000.00
Treasury Notes	33,000,000.00
96-Million Dollar Loan	96,000,000.00
Consolidation Bonds in Exchange for 1st year Bonds	25,000,000.00
Consolidation Bonds in Exchange for 8th year Bonds	8,000,000.00
	$222,800,000.00

This, together with the amounts of foreign debts referred to above, makes up a total of $442,800,000 which plus $40,000,000 for interest and $31,000,000 for overdrafts at various banks by the treasury department of the ministry of finance, brings the grand total up to $513,800,000.

To redeem these old bonds by new bonds to be issued, say at 10% discount, i.e. to give $100 face value of the new bonds for $90 face value of the old one, an aggregate of $569,777,780 face value of new bonds will have to be issued.

To find an appropriate sinking fund for such a huge amount is not easy. Since the present customs surplus is hardly sufficient to meet the $24,000,000 required for the consolidated loan service, the only other available source of revenue is the increase of customs revenue to be derived from the future 2½% surtax.

By studying the customs report of 1921 and the increase of revenue from the recent revision of the tariff rates, we can calculate the amount that will likely be realized from the 2½% surtax.

Import Duty for 1921 amounts to
HK. Tls 28,594,010 @ $1.50 . . . $42,891,015.00
Estimated Amount of increase due to
5% effective HK.Tls.10,000,000
@ $1.50 . . . . . $15,000,000.00

According to the above figures the amount of revenue to be realized from the imposition of 2½ percent surtax could be estimated at Haikwan Taels 28,935,000

Allocation of Surtax

When the powers at the Washington conference agreed upon granting the 2½% surtax, the idea was not to devote the entire proceeds to the service of the loans but to reserve a portion for public purposes, such as education public utilities; etc. For this reason the tariff investigation commission of the ministry of finance and the national commission for study of financial problems have both recommended using 70 percent of the proceeds for the service of the loans and 30 percent for the public purposes referred to above. Seventy percent. of $28,000,000 will only net about $19,000,000, which may not even be sufficient to meet the requirements of interest payment of the new consolidated loan, to say nothing of paying any part of the principal. Even assuming that it will be possible to make use of the whole surtax for the loan service, it will probably be necessary to spread the payment over a period of thirty or forty years, which is not likely to prove acceptable to the foreign and domestic bond-holders. The only means to shorten the period of repayment is to find and make use of some other additional sources of revenue, such as the wine and tobacco taxes.

According to the returns of 1919, the total amount collected for the year, not including Kwangtung, Szechwan, Kwangsi, Hunan, Yunnan and Kweichow, is as follows:—

Wine and Tobacco Monopoly . . .	$6,650,000.00
Wine and Tobacco Tax	6,720,000.00
Licence for Sale	990,000.00
	$14,360,000.00

By making use of the total amount of the Customs Surtax and the wine and tobacco taxes, namely $ 43,000,000 per annum, it will require 24 years to pay off China's total indebtedness with consolidated bonds bearing interest at the rate of 5% per annum (see amortization table at end of memorandum) the reason for fixing the rate of interest at 5% is because for a long term loan the interest should not be too high. Thus the reorganization loan of 1913 only bears interest at 5%. It will be for the good of the country if this can have the effect of lowering current interest, as the high rate of interest which the government is paying its bondholders has a detrimental effect upon the financial and commercial situation of the country. It is necessary here to add the further remark that much of the wine and tobacco taxes collected has been withheld by the different provinces, so that unless the provinces can be compensated in some way and the wine and tobacco taxes be placed on some arrangement similar to the salt gabelle, the sinking fund will not be reliable and cannot command the confidence of the creditors.

Abolition of Likin.

There is little prospect that conditions would improve after the abolition of likin, as the increase of customs revenue due to raising the tariff from 7½% to 12½% may not be sufficient to compensate the loss of likin. Upon the disappearance of likin, the loss of revenue that the government will suffer through the abolition of likin, native customs and all other forms of taxes having the nature of transit dues (not including loss of transit dues and re-import duties) will amount to over $ 66,910.000. When the tariff rate is raised to 12½% it is estimated that the total import duty will probably be over $144,710,000. Deducting from this amount $ 86,826,000 (which, on the basis of the maritime returns of 1920, is the estimated total amount of customs revenue when the 2½% surtax is put in force) the net increase will thus be shown to be only about $ 57,890,000, which is not sufficient to indemnify the government for the loss of likin alone. It will therefore be necessary to put in force the production or consumption taxes or some new tax, such as licence tax.

According to the provision of the Anglo-Chinese treaty of 1902, if the loss of revenue through the abolition of likin is greater than the increase that will come from raising the tariff to 12½%, the government may further levy a production tax upon the native goods not intended for export. However, although from the Chinese point of view and calculating only the increase over the 2½% surtax the abolition of likin and the raising of tariff to 12½% will only bring to the government a net increase of $57,890,000 which is not sufficient to indemnify the government for the loss of likin alone, yet from the foreign point of view the 2½% surtax alone will bring in $ 28,935,000 which, plus an additional amount of $57,890,000 when the tariff is again raised to 12½% make a total of $86,775,000 which will be more than ample to indemnify the government for the loss of likin, and the treaty powers may not therefore agree to the imposition of production and consumption taxes.

Even assuming that the production and consumption taxes can be enforced, the amount so realized must exceed $ 30,444,000, before it can compensate the loss of the Government which may be tabulated as follows:—

Loss of Revenue from abolition of Likin	$66,910,000		
Increase of Revenue to 12 1/2 %. . . .	57,890,000		
Deficit balance from loss of Likin.			$ 9,020,000
Transit dues on Imported goods (1920 figures) . . . . . HK. Tls.	1,630,000		
Transit dues on native goods. H k. Tls.	835,859		
Re-import duties . . . . . H k. Tls.	2,483,928		
Total loss through abolition of transit dues and re-import duties. H k. Tls. 4,949,787 @ 1,50			$ 7,424,681
Loss through assigning wine and Tobacco Taxes to Loan service			$14,000,000
			$30,444,681

Receipts of Native Customs

Now with regard to native customs the present annual receipt is about $ 16,730,000. When we should carry out the provisions of the Sino-American treaty of 1903 by abolition all the native customs in the interior, retaining only those along the coasts to collect the production and consumption taxes on native goods not intended for export and exempting goods to be used in manufacturing factories, the revenue from the native customs will be diminished to about one-third of its present amount or will be reduced to about $ 5,000,000 per annum, which will not be sufficient to make up the loss due to the abolition of the native customs within 5 li of the maritime customs. (The

(Continued on page 81)

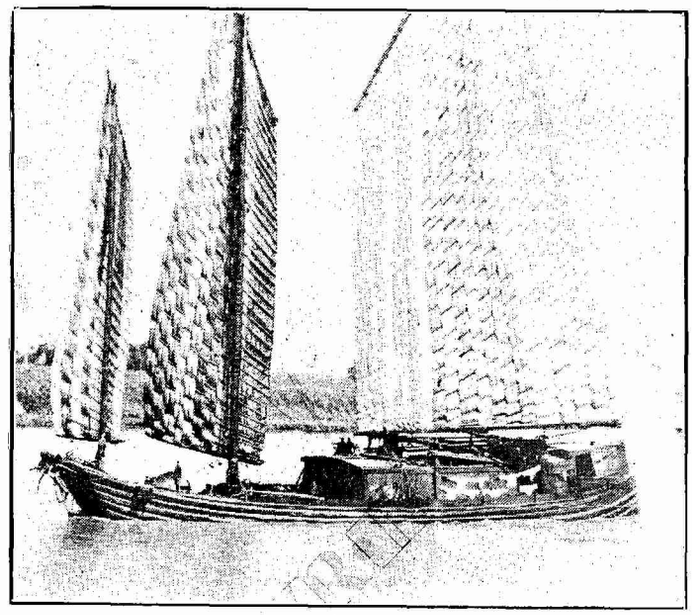
The Funding of China's Debts

BY RODNEY GILBERT

FROM year to year, as the grass gets shorter, as the Chinese Government has less to pledge as security for loans and as the price of promissory paper in Peking comes nearer and nearer the actual cost of paper, engraving and printing, the New Year settlement becomes more and more a popular spectacle. The general public, foreign and Chinese, takes an increasing interest in watching the ingenious financial evasions and tricks of successive Ministers who are responsible for the annual clearance of national obligations, as the pitfalls in the Government's path become more numerous and more dangerous. The New Year settlement has come to afford the same diversion to persons of sportive temperament as an obstacle race — the more dangerous the obstacles the keener the interest.

China's foreign credit began to crumble nearly two years ago. Today Chinese bonds, lacking security upon which the creditors can foreclose, are absolutely unsaleable on any foreign market. Domestic credit has gone the same road and the recent "settlement" has made this patent to all because the government not only failed to put domestic bonds or treasury notes upon the market, but frankly diverted the security of loans upon which it had already defaulted to salaries and current expenses — its petty cash account. If an individual or a corporation were to do this on pay day, the creditors would foregather and something drastic would happen. Such action may come a little more slowly in the case of a government, but come it must, sooner or later. Among foreign and Chinese creditors there has lately been a feeling that what is vulgarly known as the "show-down" must come before the end of 1923. In the Chinese ministry of finance it is sadly confessed that this is probably so. Even the general public, which usually lacks the specific information upon which financial speculations have to be based and which therefore takes little interest in the government's money problems, has been made aware by the burlesque character of the recent "settlement" that something of a revolutionary character is going to happen, for better or for worse, before this year is out. All of which has resulted at this season in the liveliest possible discussion of a pamphlet which is anything but light reading matter for the uninitiated, entitled "The Financial Reconstruction of China and the Consolidation of China's Present Indebtedness."

This pamphlet, which is proving to be the pivot for a vast whirl of discussion, is the printed form of a memorandum submitted to the National Commission for the Study of Financial Problems, January 23, 1923, by Mr. G. Padoux, adviser to the Chinese government (board of audit). It is a detailed and apparently workable scheme for the funding of China's present unsecured debt which with accumulated interest, Mr. Padoux estimates at $569,396,000.

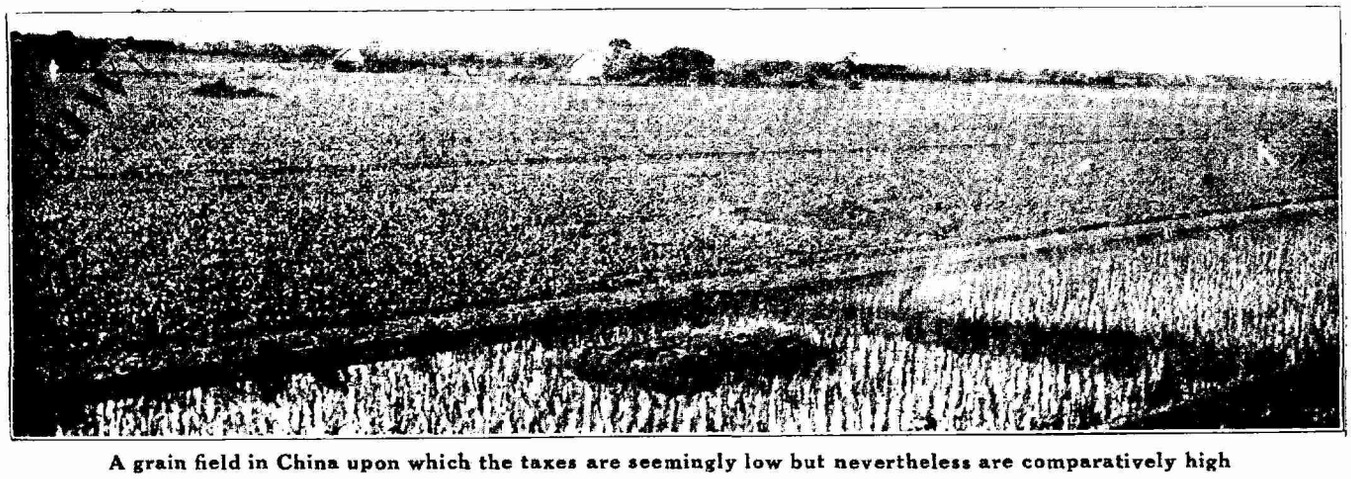


A YANGTZE RIVER BOAT

It is craft of this class that fall ready prey to various and sundry taxes, particularly military exactions, which are referred to several times in the accompanying article as bringing up the burden of taxation even when nominally taxes are low in China.

Attractive Scheme to Financiers

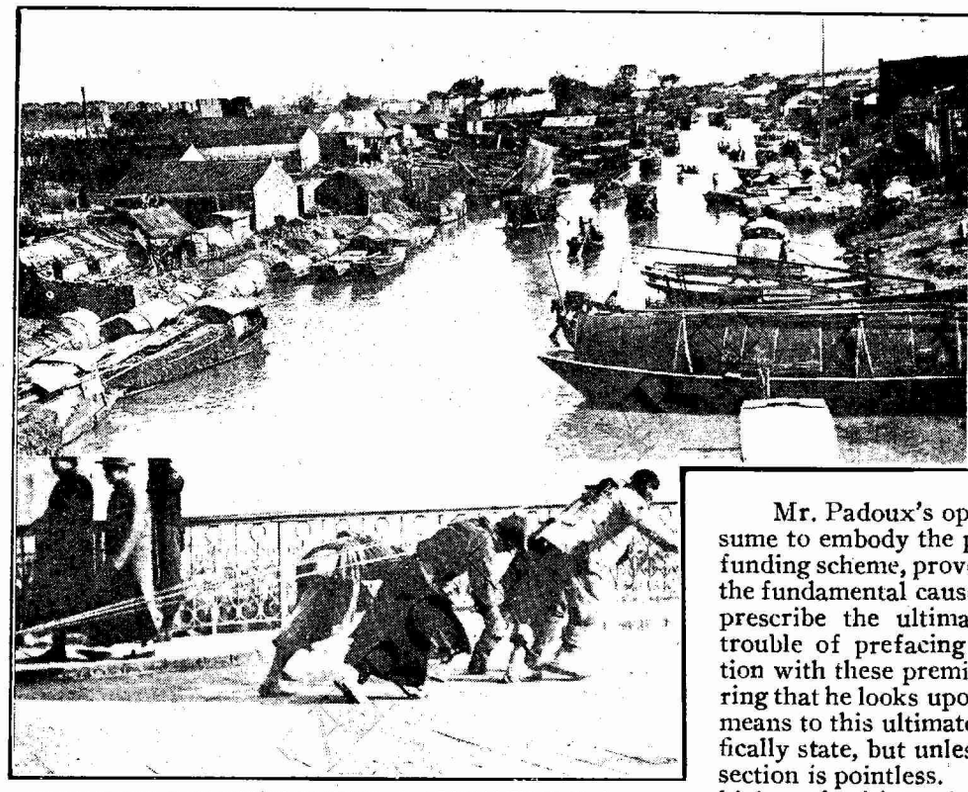
This consolidation or funding scheme is on novelty. For more than 18 months it has been discussed in all of the world's great financial emporiums and for many reasons—some obvious and others less obvious—it has been the cherished ambition of the leaders of the various consortium groups to push a scheme to fruition whenever China seemed in a receptive frame of mind or whenever a good opportunity was afforded for making it appear an essential to China's financial independence. Just before Chinese New Year, a year ago, the funding of China's unsecured debt was proposed to Liang Shih-yi. It looked then as though the funding of the foreign debt might not be popular in China, so the wily Liang evaded the issue by making a counter proposition of a series of funding loans,



A grain field in China upon which the taxes are seemingly low but nevertheless are comparatively high

certain domestic loans to come first. Out of this grew the "96-million" funding of loans on the salt surplus, of which small foreign creditors insisted upon taking up about half. The bigger scheme was temporarily shelved. A little later, when Sir Charles Addis was in Peking, the local representatives of the four consortium groups called at the ministry of finance and, in the course of conversation, one of the representatives reiterated the suggestion of a big all-inclusive funding loan. It was not received with enthusiasm, obviously because the fear still lingered in the Chinese official mind that such a loan, being an international as well as an official recognition of the validity of the Nishihara loans and of other transactions of doubtful character.

For some months last Spring and Summer the funding scheme was quiescent. But then when it seemed that the international tariff conference, scheduled to sit in Peking within three months of the ratification of the effective 5 percent tariff, was imminent it was revived with fresh vigor and has since been the subject of constant and intensive



THE PEOPLE ON WHOM EVEN A LIGHT TAX IS A HEAVY BURDEN

ABOVE—Canal scene in Soochow; BELOW—Coolies drawing a load of freight in Shanghai

discussion. The five percent effective ad valorem tariff is now effective, or about to become effective, and it is anticipated that the conference which will have to dispose of the additional customs increases provided for at Washington by the Nine Power Treaty (two and one half percent on imports and five percent on luxuries to come) will be called in Peking in September. This will provide the kind of an opportunity which the advocates of a funding loan have been looking for. The increases will be agreed upon and will subsequently become effective about January 1, 1924, on condition that the Chinese government is willing to set apart the whole of the prospective increase, or as much of it as is needed (which amounts to the same thing for some time), as security for the consolidated unsecured national debt, foreign and domestic. The leaders of the local banking community would go further than this and pool with the prospective customs increases such other national revenues as salt surplus, wine and tobacco revenues and certain railway revenues, and then include in the proposed consolidation all debts of the ministry of communications, including railway loans for which existing railway revenues are inadequate.

Chinese Officials Ready for It

It is the writer's personal belief that Chinese officialdom stands ready now to agree to Mr. Padoux's suggestions or to some modification of them, for the simple reason that while it will dispose of importunate foreign and domestic creditors, it will at the same time restore credit both native and foreign, it will postpone the fundamental solution of the financial problem which lies in coming to grips with the provincial robber barons who dam at all quarters of the compass the tide of normal national revenue; and because by restoring credit it will make possible new loan orgies, postpone a strict accounting to the nation and perpetuate all the rotten traditions which have brought the government to such a pass that a funding loan is now necessary.

It is difficult to find in Peking a foreigner seasoned in financial jugglery with the Chinese government who can be made to see that any measures of expediency which do not tend directly to restore a government enjoying authority over the provinces and the confidence of the province, which does not tend to *force* the restoration of some such system, only serves to shove China a little nearer the brink.

Mr. Padoux's opening section, which we may assume to embody the premises of his argument for the funding scheme, proves him an exception. He does see the fundamental cause of China's troubles and he does prescribe the ultimate cure. Since he goes to the trouble of prefacing his argument for debt consolidation with these premises, we are warranted in inferring that he looks upon his funding scheme as a feasible means to this ultimate cure. This he does not specifically state, but unless this is implied the introductory section is pointless. In Peking there are a number of high authorities who, since the publication of Mr. Padoux's memorandum have enthusiastically endorsed it, pointing out that if the Chinese at the prospective international tariff conference were cajoled or forced into agreement with his scheme, it would dispose of all their available revenues, securities and credits at one fell swoop and force the provinces in turn to support a central government if the provinces really wanted one. With this the writer does not agree. He does not believe that this end would be attained at all and therefore does not believe that Mr. Padoux's scheme would lead directly or indirectly to the fundamental solution.

Lightness of China's Debt

In Section II, Mr. Padoux undertakes to show that the Chinese are a lightly taxed people. He does not believe that the provincial and local taxes imposed upon the 400,000,000 sons of Han amount to more than $500,000,000 annually, a total per capita taxation of $1.20. This he shows to be one-fifth of the per capita taxation in Siam and one-eighth of the per

capita collection in French Indo-China. As compared with China's $1.20 a head, the average Japanese pays $16 a year and the Filipino $15. He then demonstrates that if China's total national debt, secured and unsecured, totals $1,900,000,000, and he believes it is less, the per capita debt is only $4.75, as compared with Japan's $50, or say Great Britain's $1,440. The service of China's secured debt now amounts to about $95,000,000 per annum while the service of the unsecured debt would require another 40 or 45 million dollars. Such an increase in the general taxation, which, as Mr. Padoux later demonstrates would result from recent and prospective tariff increases and from the normal growth of Customs revenue, would impose an additional tax of about 10 cents per capita, which would still leave the Chinese people under the lightest burden imaginable and, assuming that the present internal revenues from all sources now total $500,000,000, would provide enough for the service of the national debt and leave $300,000,000 for national and provincial administrative expenses.

In the first place, in reckoning the total taxation of the Chinese people and then the per capita taxation, Mr. Padoux says distinctly that the *provincial and local* taxes collected do not exceed $500,000,000. If we had reason to believe that this classification excluded the revenues which now come into Peking through the customs and salt collectorates, we might accept these figures as a minimum statement of the actual cash handed over by the people in legitimate taxes to their officials. In figuring an increase upon this amount, however, for the service of the unsecured debt, Mr. Padoux obviously adds in prospective customs increases, which would imply that the existing import tariffs at least, as well as other national revenues, are included in the $500,000,000 or ought to be. If we were to subtract the proportion of China's customs revenues which the Chinese consuming public pays indirectly and the salt revenues from the $500,000,000 it would be an absurdly low estimate of the "provincial and local" taxes legitimately collected, apart from exactions of a hundred kinds which go to support officialdom and officialdom's entourage.

M. Padoux's Under-estimate

Even if the customs and salt revenues are not included in the $500,000,000 estimated, this total seems inadequate to anyone who has lived or travelled in the interior. If the writer were asked for a rough estimate of the land tax alone he would say $500,000,000. Chinese officials would challenge these figures promptly. They have been in the habit of challenging them for generations and centuries. But the writer has heard conservative Chinese ex-officials estimate the total at $400,000,000. A little simple arithmetic along the most conservative lines will account for a good proportion of this. So far as food production goes China is self-supporting. Mr. Padoux thinks that there are more then 400,000,000 Chinese on the face of this land. We know by experience in the interior that every mou of cultivated land is taxed. In most parts of the unirrigated north the land tax averages about twenty cents per mou per year. In the south the tax is much higher running as high in some rice districts where the writer has made inquiries, as $1.20 and $1.50 per annum. The land is of course more productive but not in proportion to the tax. The average for the whole cultivated area of China is possibly about 30 cents a mou. Say it is 20 cents, for the sake of argument. Now, in the north in many districts in many provinces which the writer has visited he has heard it said that it takes the produce of ten mou to support an individual, of which half goes to food and the rest to incidental expenses. This is not high living either. The best land in the best season taxable at say 20 cents a mou will yield a maximum return on a grain crop here in the north of $10 a year. The average land taxed 20 cents a mou does not yield so much from season to season. More productive garden land or rice land, or land capable of producing two crops, is usually taxed higher, not in proportion, but like the American income tax, out of proportion to the return. To be conservative, however, let us suppose that an individual who has ten mou of grain land has an annual return of $100 (which only the luckiest have) of which he spends $50 a year on food. The average farmer does not spend so much on food, but neither does he produce so much on the average. Thirty dollars a year would be a safer estimate of the market value of the food which a rustic consumes, but so would $30 a year be a safer estimate of the market value of the grain produce of ten mou paying $2 a year land tax. The upshot of all this is that in the less productive north, where the lighter taxes are imposed, the land tax covering an individual's annual consumption of food is on the average the tax on five mou of grain land, or Mex. $1. If the proportionate tax in the south were no higher, and we know that it is higher, this would make Mr. Padoux's 400.000 000 Chinese pay $400,000,000 per annum land tax, always assuming that the food consumption of the average Chinese in and out of the cities averages as low as that of the poor northern farmer.

Exactions Innumerable in China

In addition to the land tax the modern Chinese pays taxes and exactions, direct and indirect, which make the land tax itself dwindle into insignificance. First of all there is the system of enforced official service all over the land for laborers, carts, and animals—the corvée system—which is a form of taxation just as much as the collection of real cash. Then in every city there are a variety of vehicle taxes, shop taxes, and what not. Then there are the wine and tobacco taxes, the stamp taxes, registration fees for every sort of official documents, excessive prices charged for official forms, etc., etc. The total of the likin charges collected is of course much greater than has ever appeared on official reports and the writer knows from inquiries made of likin officials in various parts of the country that the fees charged for the examination of likin passes and other documents at every station on a line of trade—a form of exaction known as *"yen p'iao fei"*—adds from 10 to 15 per cent to the legitimate likin charges. On nearly all roads in the interior the enterprising republican officials now impose animal and vehicle taxes at stations a few hundred li apart. At river crossings where traffic can be conveniently bled, all traffic is taxed in addition to ferry charges. At the Yellow River near Paot'ouchen the writer once watched 1,500 camels which crossed the river in half a day pay a transit tax of 50 cents each. At hundreds of city gates all over the country animals, carts and chairs are charged an illegal octroi of a few coppers each.

No new enterprise in modern China can open up now without a licence or a police permit for which there is a fee. In addition to the fee which appears on the books there is the local police squeeze and then every time a militarist levies on a town or a chamber of commerce, the various shops and industrial establishments subscribe according to their importance. These charges we have to reckon as taxes when we are estimating the burden on the people because in any

(*Continued on page 70*)

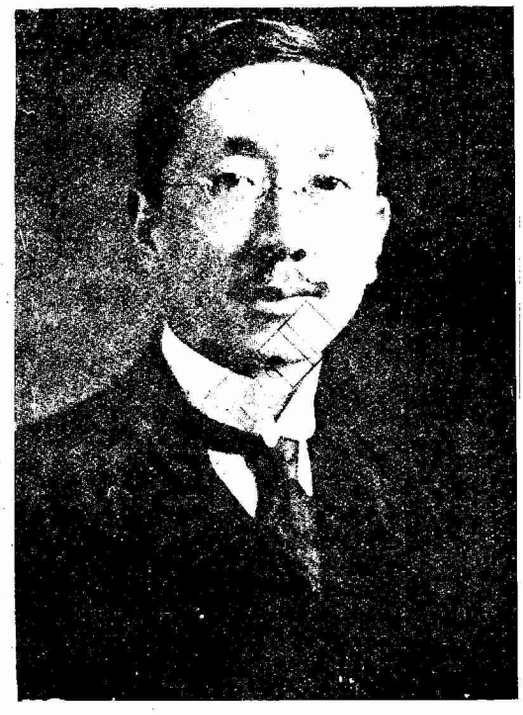
The Republic of China and American Finance

BY SAO KE ALFRED SZE

Chinese Minister to the United States

DURING the past two years American bankers have made foreign loans and granted credits to the amount of approximately two billion dollars in U. S. currency or about four billion dollars in Chinese currency. This great sum of money, more than twice the amount of China's entire domestic and foreign debt, has been invested in about every country on the face of the earth—except China. Americans have been doing business with China and in China practically since the foundation of the American republic, and yet I am told that the total American business investment in China does not exceed G.$250,000,000. American missionaries have more money invested in land and buildings used for educational and religious purposes than have American business men invested in China in permanent plant and equipment, probably twice as much.

China's total governmental obligations for domestic and foreign loans is estimated at roughly $1,900,000,000 domestic currency or $950,000,000 U. S. Currency. Figured out on a per capita basis our entire governmental obligation is only about G.$2.50 per person, said to be the lowest per capita debt of any nation. Territorially China embraces an area about one sixth larger than continental United States and from an agricultural and mineral resource stand-point is about equal to the United States The Chinese people have always been noted for their industry and economy and resourcefulness.



DR. SAO KE ALFRED SZE

Cooperation Needed

The Republic of China and the United States of America together constitute a large proportion of the productive area of the world. The United States of America, a great agricultural nation has within recent years become pre-eminent in industry and finance among the nations of the world. China, always a great agricultural nation is just at the beginning of a great industrial development. America is now the greatest and oldest republic of the world. China is trying to work out a republican form of government largely based upon the American example. America's foreign trade with China began in 1784 when the first clipper ship from Boston landed at Canton. This trade prospered for three-quarters of a century and there is no question but that this early American-Chinese commerce constituted an important element in the up-building of the early American colonies. That these early commercial relations between China and America were beneficial to China in her first intercourse with foreigners is generally understood and fully appreciated by all thinking Chinese.

I mention these things because of their bearing upon the future commercial relations of our two countries. China and America must cooperate to their mutual advantage and this cooperation is bound to be beneficial not only to the people of both republics but to the whole world. America's relations with China have always had at their foundation altruism and this altruism was finally translated into definite form in the proceedings and treaty results of the Washington Conference. We must not consider the Washington Conference a culmination, but rather we must look upon the Washington Conference as a real beginning in the new relationship of America and China. China is now passing through a difficult stage in the reorganziation of her domestic affairs and there is disorder which is generally deprecated by Chinese citizens as well as foreign well-wishers. These things produce unpleasant situations deplored by all, but we must not permit these things to interfere in the sound friendship of our two peoples. China needs America and America needs China. Americans of all peoples should be appreciative of the problems involved in the establishment of a sound republican government based upon the consent of the people.

Tariff Conference

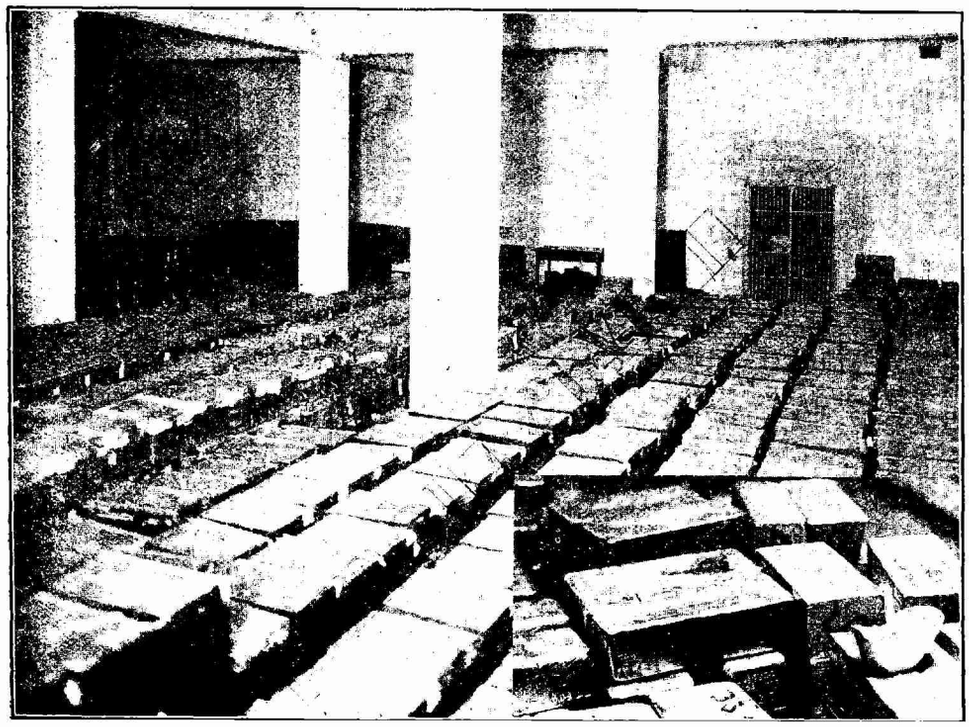
It is not my purpose to enter upon a technical discussion of finance. I leave that to the experts. I merely mention the basic principles of our relationship and the basic position of the two countries in the general welfare of the world. It is vital that our two peoples learn to understand each other and to help each other. One of the important actions of the Washington Conference was the provision for a Special Conference to be held in China for the purpose of increasing China's revenues from her customs' tariff. The Washington Conference accomplished much in the general stabiiization of political conditions in this part of the world. The Special Tariff Conference to be held in China this year should do as much in the stabilization of financial and economic affairs in China, a necessary element in the peaceful relationship of China with the various nations interested in our foreign trade. It is to be hoped that the American people understand the importance of this Special Conference and that the American Delegation to the Conference will come to China amply prepared to take its rightful place in the deliberations as was the American Delegation prepared to take its proper place in the Washington Conference. May I repeat again the statement that the Washington Conference should be considered chiefly from the standpoint that it marks the beginning of a new era in the relationship of America with China and the Orient.

China and the Silver Situation

BY R BUCHAN

Manager, Asia Banking Corporation, Shanghai

SO much has been written of recent years regarding the bankruptcy of the Chinese government and the dislocation of China's finances that it is difficult to realize that the monetary system of the great republic of the Orient is today basically sound. The European printing presses have been so busy of late that with the exception of the pound sterling and a few of the minor so called "neutral" currencies, coins of the realm in Europe are but a shadow of their former selves. Victor and vanquished have shared alike in the financial debacle. In spite of civil war, banditry, the incubus of huge unpaid armies, famine and flood, China's currency at heart still remains sound and her foreign trade continues to show satisfactory increases. It is true China has her fair share of worthless securities but the Chinese people in their financial dealings have stuck to a hard money currency. No security, regardless of its backing has ever been able to displace silver as a medium of exchange. While paper money is used freely in the treaty ports, the Chinese never allow the issuers thereof to forget that such money must be secured dollar for dollar with hard silver. It has been no unusual occurrence for banks whose standing is unquestioned in the international money markets of the world to find practically all their outstanding notes presented to them for redemption and in such cases the notes must be redeemed in silver or the bank closes down. Needless to say therefore, banks in China maintain at all times substantial cash reserves. Such reserves too must be kept in their own vaults for when the day of reckoning comes note holders want immediate payment and want it in silver.



This photograph shows a corner of the vaults in the Bank of China, Shanghai, in which about six million dollars worth of dollars and sycee was stored. The inset in the lower right shows a pile of silver bars, part of a shipment received by the Equitable Eastern Banking Corporation. Shoe sycee may be seen on the pile of silver bars

Perhaps a word here as to what constitutes Chinese currency would not be amiss. While the Mexican dollar and local dollars of different kinds circulate in different parts of China, the unit of Chinese currency is the tael. The tael, however, is not a coin but a weight of silver and different taels of varying weight are used in different parts of the country. We have for instance, the Shanghai tael, Hankow tael, Tientsin tael, Haikwan tael (the basis for customs duties), Canton tael. The tael, however, not being a coin, is not used as hand to hand money, but is used chiefly in operations between banks, in exchange operations of all kinds and in large mercantile transactions. It serves as a basis on which the value of other currencies, both Chinese and foreign, are based. The values of the different dollars circulating in China are expressed in terms of the tael. The intricacies of the Chinese currency system are many and it is not proposed to go into them here except to point out that regardless of the name or the place of issue of the different coins they are all, with the exception of the copper coins, valued according to the amount of pure silver they contain. No mint stamp gives them any fictitious value.

Mint Reform Needed

As a matter of fact, the mints, of which there are eight engaged chiefly in the coining of dollars, very often debase their coins either by reducing their fineness or "clipping" (reducing the weight). Such coins may for a short time be accepted at their face value, but they soon reach their own level and are accepted only for the amount of pure silver they contain. Undoubtedly there is great room for improvement in the operation of the mints. At present they are run purely for profit by the parties who happen to control them and are lax in their methods. To overcome this, it has been proposed to establish a central mint at Shanghai where dollars of standard weight and fineness might be minted under expert supervision. Land has been purchased for this mint and the building constructed but difficulties have developed in connection with the financing so that the scheme has been held up for the time being.

Silver being the basis of currency, it follows that China is a big factor in the silver market and the price of silver a matter of vital interest to those living in or doing business with China. The criticism has often been made that the large foreign banks in China devote too much of their time and resources to the silver market and not enough to financing local

business. The charge has been made that they are "exchange shops" only and not banks. An impartial investigation will, we believe, absolve the banks from this charge. The foreign banks purposely leave the financing of local business outside of the treaty ports at least, to Chinese banks. It would be obviously impossible for the foreign banks of which there are only about twenty to begin to finance the enormous domestic as well as foreign trade of the country. This business can in any event be handled to better advantage by the Chinese banks who are in close touch with local conditions, have no language difficulty to contend with and are not handicapped in the matter of taking title to real estate, which no foreigner can do in China proper. Foreign banks finance schemes in the treaty ports but their main business is in the financing of imports and exports between China and other countries; on account of their many connections abroad they can do this to better advantage than purely Chinese banks. It must be remembered that the foreign banks in China are in most cases very large institutions founded by powerful banking groups in their respective home countries for the very purpose of financing business between China and the home land. They are especially equipped for such business. If they are to do business with profit to themselves and their customer they must not only keep in close touch with the silver market but with all the principal foreign exchanges. Every exchange of commodities between China and a foreign country gives rise to an exchange operation. Before shipping his goods to Europe or America the exporter here wants to know what the proceeds will be in Chinese currency and his bank must at all times be able to give him this information. Similarly the importer before arriving at his selling price must know what the goods will cost him landed here. In other words, the banker, if he is to give proper service to his customer, must at all times be able to quote him buying and selling rates of exchange in all the principal currencies. China being on a silver basis, exchange rates here as compared with gold standard countries, are subject to very wide variations. This has led to a large business being developed in China in "forward" exchange.

Boxes of silver sycee in a Shanghai bank. The chunks of silver called sycee or shoes, are fifty taels in weight.

Merchant Wants to Play Safe

A merchant selling a retail product, does not care to change his selling price oftener than necessary. He may place an order with an American manufacturer, for instance, for a certain line of goods to be made to his order; the goods may arrive in China in lots during the succeeding twelve months, the merchant paying cash against documents on arrival. In order that he may know what he will have to pay for the goods as they arrive he makes a contract with his bank whereby the latter agrees to sell him the necessary exchange at a rate which will hold good for twelve months. The merchant, therefore, knows just what the goods will cost him and does not need to worry about what exchange may be when his goods arrive. In other words he has "fixed" his exchange. Similarly an exporter often sells his bills to his banker covering merchandise which will not be shipped until many months later. The banker endeavors to match up as much as possible his purchases and sales for the same periods. It is not always possible to do this locally and banks often balance up their operations by buying or selling silver in the London silver market. This now brings us to the silver market, particularly in its relation to China.

The Americas, North and South, have been and are still the world's great silver producers. The great consumers are India and China. However, large quantities have in the past been used for coinage purposes by all the leading commercial countries and considerable quantities have been consumed in the industrial arts. While little silver is now being used for coinage, the demand for the metal for industrial purposes is still heavy and shows a tendency to increase rather than decrease. The United States alone is supposed to have consumed 30% more silver in the arts in 1922 than in 1921. This silver was largely used by the silversmiths of the country who, due to favorable industrial conditions, found an increased demand for their product. The moving picture business which is continually expanding, is a large consumer of silver. However, it is to the Orient that the silver producers look mainly for the disposal of their product. China and India have been importing silver from abroad for generations and while it was feared time and again that the saturation point had been reached, the demand from these two countries shows little signs of slackening; in fact keep space with the increased production. World production of silver declined materially during the war but is now back to pre-war figures and it is not unlikely that the 1923 production will approximate the record production of 1911 of 226,000,000 ounces. This increased production is largely the result of more settled conditions in Mexico, the output of that country in 1922 being more than twice the average 1914-1917 annual production. The estimated 1923 production is

some 95,000,000 ounces as compared with 75,000,000 in 1922 and with only 23,000,000 ouncesin 1916.

World's Production of Silver

The world's estimated silver production in 1922 was 192,000,000 ounces as compared with 175,000,000 ounces in 1921 as follows:

United States	56,000,000	ounces.
Mexico	75,000,000	,,
Canada	15,000,000	,,
Other Countries	46,000,000	,,
	192,000,000	,,

It should be pointed out, however, that while the amount of silver mined in 1923 may be a record, the quantity actually placed on the market may not increase as during 1921 and 1922 bullion, the proceeds of demonetized coin, was sold freely by European continental countries and Great Britain. This amount is placed at 19,000,000 ounces for the continent and 24,000,000 ounces for Great Britain. The continent is not supposed to have further large supplies for sale from this source; the British supply is also expected to decrease. China's importance in the silver market is shown by the fact that out of a world production in 1922 of 192,000,000 ounces, she alone consumed about 87,000,000 ounces, or more than 45%. Of this amount she imported 50,000,000 ounces from the United States and 22,000,000 ounces from England. The balance was received largely from India and Hongkong. It is estimated that the Hongkong government shipped to Shanghai in the first half of 1922 Hongkong subsidiary coins of an obsolete issue containing about 5,700,000 ounces of fine silver.

In April of that year civil war broke out in Northern China between Wu-Pei-Fu and Chang Tso-Lin. This campaign was financed largely through silver withdrawn from Shanghai with the result that that port found its supplies of the white metal seriously depleted. Arrangements were therefore made with the Hongkong government whereby large supplies of obsolete coins which had been on hand there for many years were shipped to Shanghai, very much as the United States government during the war shipped its silver dollars to India under the Pittman Act.

London has been for many years the world's chief silver market, although during the war this position was occupied by New York. Silver production the

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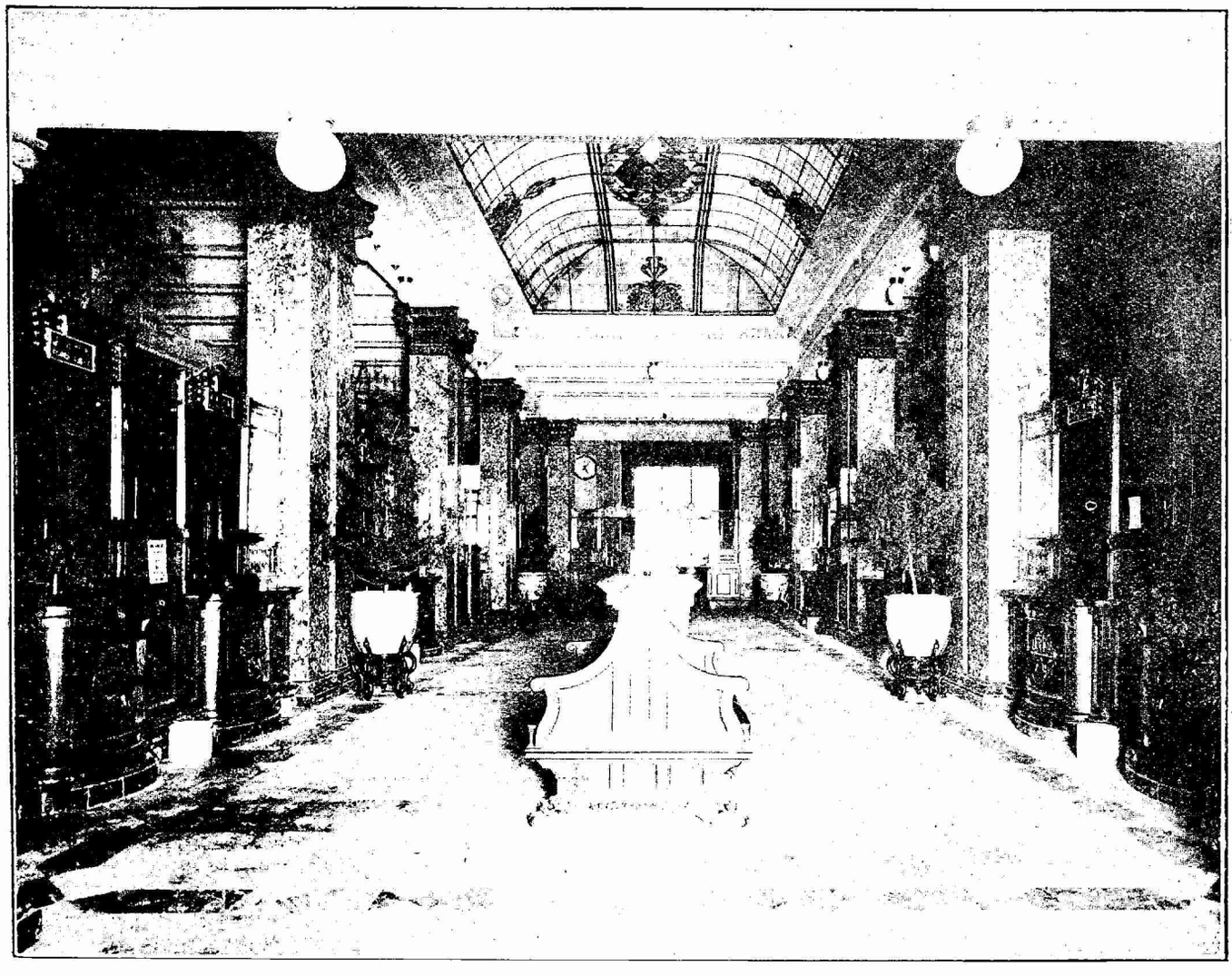


INTERIOR OF A MODERN CHINESE BANK OF SHANGHAI

The Chung Foo Union Bank, one of the progressive Chinese institutions, one of those taking a hand in foreign exchange, recently moved into its new and commodious building at 25 Jinkee Road

South China's Awakening and Financial Progress

BY HIN WONG

South China Contributing Editor of THE WEEKLY REVIEW

NATIVE bankers still constitute the vital factor in South China finance. Scientific banking of the modern form did not exist among the Southern Chinese until just a year before the Republic when the Bank of Canton, Ltd., was established at Hongkong by Look Poong Shan, the present chief manager, and others with a capital of 1,200,000 pounds sterling. There are now six Chinese banks of the modern type in Hongkong and Canton, aside from the Bank of Canton. These are the Bank of East Asia, with a capital of $10,000,000; the Oriental Commercial Bank, with a capital of $5,000,000; the Industrial and Commercial Bank, the Chinese Merchants Bank, the National Commercial Bank, the China Specie Bank, and the Provincial Bank of Kwangtung. With the exception of the Provincial Bank of Kwangtung, all the foregoing are incorporated in Hongkong. They do a general banking and exchange business, grant loans on approved securities, and receive current and fixed deposits at rates of interest higher than those given by foreign banks. The Bank of Canton allows an interest of two percent per annum on daily credit balance of more than $100 and from two percent to five percent on fixed deposits.

The present business of the half dozen modern Chinese banks is very small compared with that of the older and greater foreign institutions in this part of China. Of the estimated $240,000,000 received in deposits by the several foreign and Chinese modern banks in South China, the Chinese banks receive but about $50,000,000. The foreign banks naturally transact most of the exchange business, but the modern Chinese banks are growing both in foreign and domestic exchange. For the present their business consists primarily of local loans and advances, on which they charge 10 to 12 percent interest, somewhat higher than that charged in foreign banks. The Bank of Canton, Ltd., the Chinese Merchants Bank, Ltd., and others, to facilitate foreign business, have branches in San Francisco, New York City, and agencies in all important cities of the world.

The half dozen Chinese banks of the modern type at present in business, have a promising future because of the rapid growth of Chinese importing and exporting firms who prefer a direct relationship with manufacturers abroad to the usual transaction through foreign hongs, but they are still unable to finance local industries to any great extent. One of these banks is financing certain coal imports and a few other dealings. Some of them deal much in gold coins. When a bank has only a little more than $10,000,000 in capital and, after keeping some $2,000,000 to $3,000,000 abroad for exchange purposes, invests nearly $2,000,000 in bank buildings, keeps $1,000,000 in gold coins, it has little left for other uses.

Chinese coolies carrying silver bars. Silver is carried about as just so much freight

Hongkong Is Financial Center

Native banks in Hongkong, Canton, and the larger Chinese cities in South China number at least 800. The most influential ones are those of Hongkong, which number some 150. These banks are capitalized at sums running from $5,000 to $500,000. While the modern Chinese banks are supported and owned by overseas Chinese, the native banks of the old school receive their patronage from the old families and are mostly conducted by them. Family fortune and family influence lend prestige and draw business to them. The native banks may be divided into two classes, speculative and investment.

The speculative native banks, very few having a capital exceeding $50,000, deal mostly in buying and selling forward exchange. They speculate in all forms of currency, foreign and domestic, and in company shares and stocks. They make their profits from margins. They corner the market on Hongkong currency when they know the demand for it is heavy. They do not hesitate to depreciate Canton currency when an opportunity presents itself. Local money exchange business is wholly in the hands of these small speculative native banks. These banks are very unpopular, especially in the government circles because of the methods they use to gain inside information and because of their taking advantage of the financial weakness of the government.

The native banks of the investment class form the backbone of South China finances still. While their capitalization may run only from $100,000 to $500,000 each, their deposits are exceedingly heavy. A well-known authority on South China finances informed the writer recently that at least some $1,000,000,000 belonging to substantial Chinese families and firms is deposited with native bankers of Hongkong. Even in Canton where the political situation has been bad for the last decade, some $40,000,000 is available on short notice for the development of local industries when at any time a slight improvement of internal conditions is noted. The main business of the native banks, aside from local and inter-port exchange transactions, consists in long and short term loans with or without security. They usually handle exchange transactions for the account of the customer on a commission basis only. Their value to trade and commerce in financing worthy enterprises is great. The large silk trade in Canton receives their backing. Sometimes transactions in this

(*Continued on page 60*)

The Native Banks of Shanghai

BY T. S. HSU

(Editor of the Bankers' Weekly)

SHANGHAI is not only the commercial center of China, but also is most important in the financial affairs of the nation. Before the development of banks of the modern type, financial affairs were exclusively in the hands of the native banks, through which currency was circulated. The relationship between native banks and commercial firms in Shanghai is close, and through this relationship the banks are able to exert a strong influence over commerce.

Although foreign banks occupy a strong position in Shanhai, in a large part of their Chinese dealings they cannot avoid handling their business through the native banking institutions, since the foreign banks are unable to maintain organizations covering the interior districts. Business with interior connections has to go largely though native banks. Also, the position of the Shanghai native banks is strengthened through the situation in which exchange rates for currencies in other parts of China are based upon those of Shanghai.

Shen Chu-Hsu, President of the Chinese Bankers' Association of Shanghai, and Manager of the Bank of Communications, Shanghai

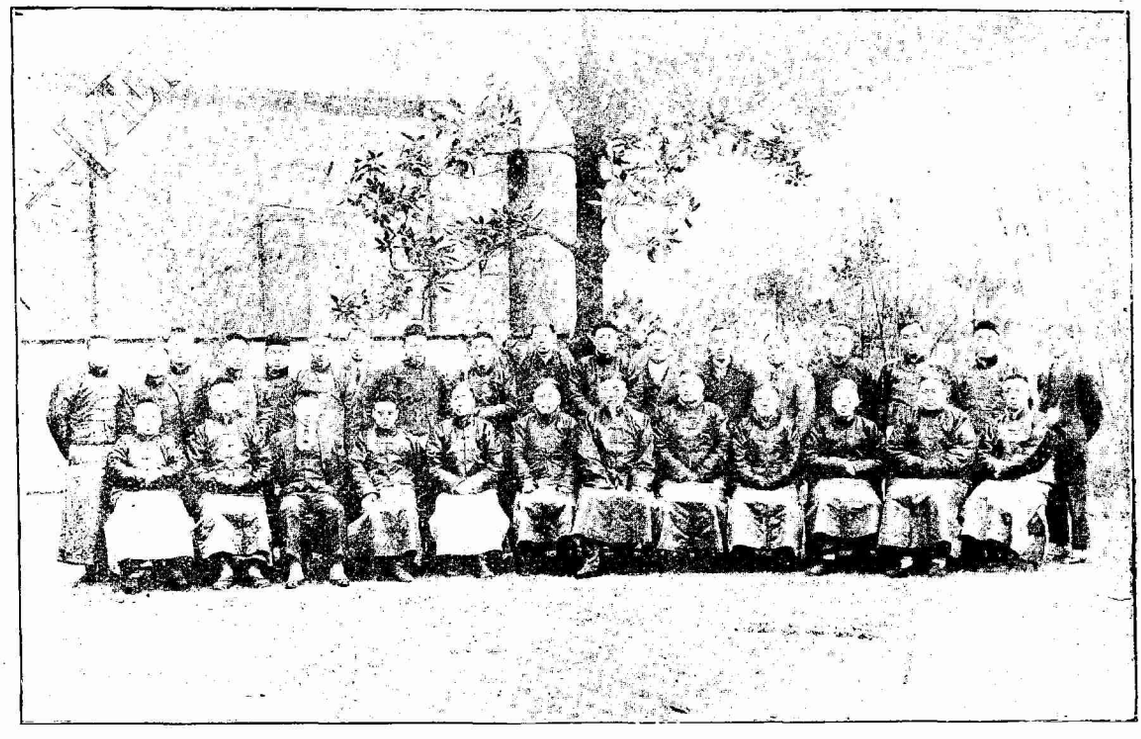
The native bank carries on a business, which in a general way, is like that conducted by a foreign banking institution. They are quite popular in south and central China. The Chinese name for the institution that ordinarily is called a native bank is "chien chuan" which includes not only banking institutions but exchange shops. A "chien chuan" is sometimes called "yin hao" (known to foreigners as Shansi bank) or "hui hua chuang" (a bank issuing orders acceptable to members of the Bankers' Clearing House). Those belonging to the class "hui hua chuang" are first class banks.

Although it has been the custom to say "chien chuang" to mean any institution whose business is in banking, currency or exchange, there really are two classes of institutions coming under this head; namely, "chien chuang" (properly translated as money firm) and "chien pu" (money shop). The "chien chuang" institutions are larger in capitalization, and enjoy the privileges and advantages of membership in the Native Bankers' Association or guild, giving financial strength through alliance with other member banks. This is the kind of institution that foreigners refer to when they speak of a native bank. A "chien pu" deals in currency exchange and has no extensive strength in the financial market. To foreigners it is known as an exchange shop. Some of these exchange shops may accept deposits, but only in small amounts. Once these exchange shops enjoyed a better standing than they do now and were very popular. Now they have little standing. In fact, most of them deal in various commodities on a small scale. Many of them retail cigarettes.

Because of the importance of the native banks as a class, I shall go more into detail as to their sources of strength and other matter pertaining to their place in the financial world.

History of Shanghai Native Banks

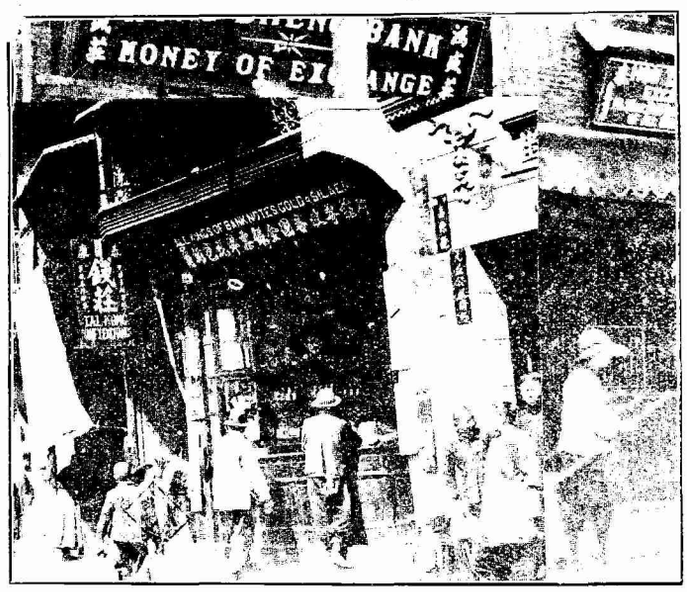
Because of the close relationship existing between



Members of the Chinese Bankers' Association of Shanghai. This is only a small part of the Chinese bankers of Shanghai, but it must be remembered that only a small part of the bankers enjoy the privilege of membership in the Association

the native banks and commercial firms of Shanghai the failure of one would seriously affect the other, which fact is mentioned to impress the point that the history of the native banks must be considered in relation to commerce. The establishment of native banks antedates the opening of the port of Shanghai. The scope of their business at first was small; little business was handled by them—their field being principally that of a cash exchange shop. But from that humble start grew the influential business that is represented by the native banks of today. Between 1851 and 1874 the banking business enjoyed a gradual development and expansion. They then accepted deposits, made loans and issued orders, in accordance with the demands of the public. There were successes and failures among them then. In 1875 the international settlement had 80 of these banks and the Nantao District (Native City) 20. At the time of the Sino-French war they were badly hit, many of them failing. At the end of this war out of the hundred mentioned above, only 20 still were in operation. However, they soon regained their footing and their former position.

In 1910 some banks in Newchwang failed and seriously involved the Shanghai banks but they were able to pull through the crisis. Soon after that chaos came in the rubber share market, involving banks, since some of them had not only been speculating in shares themselves, but worse still, had been financing customers and proprietors who were speculating with money from the banks. The result was that some of them were unable to stand the losses they suffered themselves and suffered as a result of the fact they found it impossible to recover the money they had out. For instance, Yuan Fong Yuen and Yi Shan Yen were the strongest banks at this time but became insolvent as a result of this chain of adverse circumstances. The Dah Ching and Chiao Tung (government) banks also were badly involved. Not only was the financial situation of Shanghai muddled but also that of the whole nation. Some of the banks had sufficient backing to continue in business although the whole of their capital was lost.



The line of demarcation between a money shop and a bank in China is not closely drawn; in fact, one cannot tell where the money shop stops and the bank starts. This picture shows a row of native banks on Szechuan road in Shanghai and the insert in the lower left of the picture shows a native bank or exchange shop in the native city of Shanghai.

Then in 1912 the revolution gave the native banks, another serious blow. Relatively few of them could stem the tide this time, and the number was reduced to 50 in all. In the first year of the republic the banks were doing little more than maintaining their offices. But in 1913 conditions gradually improved.

As a result of the failures and near failures of banks in these trying times the banks learned some valuable lessons and began to conduct their business more conservatively. Speculation was stopped and more care has been exercised in extending loan since. The good effects of this more conservative policy have been seen in the periods of financial disturbance since that time. The banks have been able to go safely through these critical periods. For instance, about a year ago when there was a run on banks the native banks took no small part in maintaining the equilibrium of the financial situation. At times they were forced to reduce the scope of their business due to disturbances but they are on a better footing than they were before 1912. Now banks that have not sufficient capital for carrying on their business safely are kept from the field. Although there is a smaller number of banks, through their strength, they still are able to hold a prominent place in the financial circle. Formerly they did business recklessly without considering how far they should go with their capital, but now they have large reserves and their business is conducted on a more substantial basis. This is a good policy, not only for the banks but for the public.

Kinds of Shanghai Native Banks

The native banks of Shanghai are classified according to the size of their capital and the scope of the business they do. The classes to which they belong are clearing banks, (first class), small banks and exchange shops. Clearing house banks are members of the Native Banker's Clearing Association. The general class of business done by them is much the same as that done by the smaller banks, except that the latter are not members of the clearing association and do not conduct so extensive a business. Also there are other classifications that might be mentioned, classifications that explain themselves, such as "association members" "non-association members," "big union," and "small union."

On a basis of business relationships different groups of banks form different associations and guilds, which serve to unite the banks. Each association or guild drafts its own constitution for the guidanes of its members. The rate of exchange on currency and the rate of interest are set by the Native Bankers' Association twice a day. Matters that involve the interests of the banks are discussed and decided upon by the association. The association also arbitrates disputes between its members and decides upon the allotment of payments from debtors to members of the association. A chairman and twelve executive members, who serve by monthly turns, are elected by the association to look after the affairs of the association. Since the banks wield a great influence in commerical affairs they constitute an important factor in the Chinese General Chamber of Commerce.

When a bank has been established for a long period with ample financial backing and has a manager who is prominent in the community the bank or its manager is sure to be active in the association. Members of the association ballot on new members. Besides the general association, or within it, the banks

(Continued on page 66)

Chinese Participation in Exchange Banking

T. D. ZAR

Sub-manager of the Chung Foo Union Bank

Though we Chinese cannot claim to be the originators of the present banking system, yet we can say from our ancient records that Chinese banks were working from time immemorial, originally coming from the present province of Shansi as tradition goes. Our most famous bankers came from that district, and up to the present day men from that region can lay claim to being expert in the banking business as far as domestic exchange is concerned. As the world knows there does not exist a uniform currency in China, and there is a difference in value of the unit for each province, in fact, for each tract of land. So the manipulation of exchange is not an entirely new thing in our land, especially considering that the tael which we work with is not a tangible unit and there is no such a fine thing as a bullion point to work our domestic exchange. Nor do our libraries contain tomes on native exchange or treatises on native currencies.

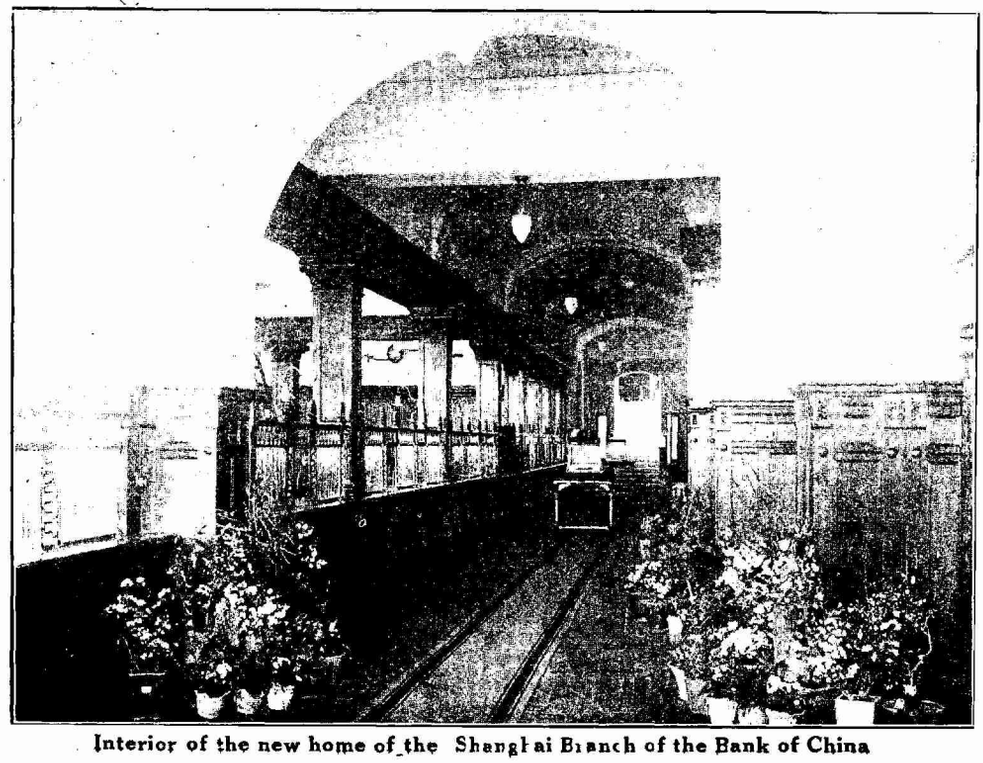
With the advent of the foreigners and the commencement of foreign trade the Chinese did not move to remodel their banking system, but remained content to see their business in the hands of the foreign banks. It was not till after the revolution which changed the ancient Empire of China into a modern republic that it began to dawn on the business men that they should begin to participate in the enormous foreign exchange business thus far a monopoly in the hands of the foreign banks. Prior to this awakening many modern banks were formed and began to follow the system of other lands. The keener minds started to improve the old system all round. It took a little time to convince the more conservative capitalists of not only the importance of modern banking but also the prestige it would give to the country and themselves. The movement to institute more banks on modern lines began to take shape in real earnest. Capital came in and within a decade banks working on foreign lines, housed in magnificent mansions began to spring up rapidly, till we have now in Shanghai about fifty modern banks, not counting the old native banks, which still flourish in the midst of modern institutions. A large number of the modern banks went ahead but a few toppled over in their eagerness to run before they had learned to walk. With these failures a more conservative policy was adopted and there is no doubt now the mushroom existence of Chinese banks will be a thing of the past.

Venturing in New Fields

With the establishing of the various banks to care for separate industry and trade there were one or two more venturous ones who started in a modest way to enter the foreign exchange business. This step required certain expert knowledge also certain confidence, for no foreign exchange business could be started without representation abroad. These outside representatives would not care to act as either agents or correspondents without certain security, either moral or monetary, for those who are in the banking line know there is always certain risk in representation. It speaks well for these Chinese banks who deal in exchange and foreign business to have secured the implicit trust almost at the start from both European and American banks, well known, well established and well to the fore as regards financial standing and stability in the banking world.

What led the Chinese banks to take up foreign exchange business was the idea to help their merchants in their foreign business and not to make it so they need to rely for help on the foreign banks only.

The starting of foreign exchange business by purely Chinese banks, under Chinese laws was not a simple matter as one may think now that the machine is in full swing. It was attended with much difficulty and not a little discouragement. I can speak from experience, as to the Chung Foo Union Bank belongs the claim to be the pioneer in the new venture. It bore the brunt of the arduous labour of clearing the virgin forest and it succeeded in seeing the land cleared. It may be here mentioned that the Bank of Canton preceded the Chung Foo Union Bank but as this institution is not a thorough-bred but a mixture, a splendid specimen of such, the Chung Foo Union Bank can proudly say that it is the first pure Chinese bank with Chinese capital under Chinese management and Chinese



Interior of the new home of the Shanghai Branch of the Bank of China

jurisdiction to lead the way. Others have successfully followed. This took place in January 1918.

Incidentally it may be recorded that simultaneous with the initiating of foreign exchange business the Chung Foo Union Bank began to receive deposits in foreign currencies such as gold dollars, sterling, francs, yen, etc. while most of the foreign banks did not handle such deposits.

Thorny Roads to Travel

As has been mentioned, the first steps towards coming into the field to participate in the spoils of foreign exchange business were taken on a very spiky road. But like the early intrepid navigators who in spite of storms and uncertainty of reaching any land did not retrace their steps, the forerunner with courage pushed on to remove all the nails and tacks in his pathway. Most of the foreign banks refused to recognise our exchange contracts and our demand drafts in payment of bills. The steamship companies would not accept our letters of guarantee for the production of bills of lading at a later date. More pricking pins were thrust, but, although annoying, they were as incentives to further efforts.

Perseverance and honest effort conquer so the Chung Foo Union Bank gradually got what it sought, though not a few of the steamship companies still persist in refusing to take the letter of guarantee of the Chinese banks.

After the great European war broke out the foreign banks gradually lost their power to fully furnish the needed financial support to China trade through reduction of resources, which caused the commercial houses in general great inconvenience in financing business as in normal times. Then the Chinese merchants began to deal directly with foreign merchants in foreign countries supported by the Chinese banks, who were given the opportunity to step in and help not only the Chinese but also the foreigners. The Chung Foo Union Bank took this opportunity to get into the exchange business. When others joined in, substantial help was given to the great China trade. The impetus given by this chance to enter into exchange business allured capitalists to invest their money in opening many more modern banks with the idea of subsequently getting into the exchange business. As the supply exceeded the demand the more speculative Chinese banks began to go beyond the limit of legitimate trade, and many did not hesitate to figure in wild ventures with the result that not a few were crippled. It is to be hoped that from lessons learned a change of policy will be adopted so as to avoid any financial panics and crises.

Other Steps Are Needed

The experiment of the Chinese merchants in dealing directly with foreigners abroad has not proved such a success, as lack of experience and want of knowledge of the ins and outs of the trade have wrecked the prospects of many, but even this will not affect those who have expert knowledge and cautiousness. From my point of view the Chinese should not trade forever with a middle man, but deal direct with their own banks as financial bankers.

To enable them to reach this desideratum the Chinese banks should go further and establish their own branch offices abroad. The Bank of Canton at San Francisco and the Chinese Merchants Bank have led the way. Once our banks have such offices in Europe and America our own merchants will not have to depend so much on foreign commission agents and foreign banks to supply them with merchandise. The ramification of our banks to other lands will bring more profit to those banks engaged in foreign exchange transactions. Our many branches will enable us to increase the volume of business and add to the resources of the banks.

The importance of modern banking was recognized some years ago, inasmuch as all the commercial schools throughout the country made it a point to include in their curricula banking classes. Both theoretical and practical banking were taught to eager pupils, thus giving them the necessary training to enter the banking business. At the present moment in Shanghai, almost all educational establishments, including the night ones, banking lessons are given. Some banks even employ practical men to lecture and guide their staff and technical lessons are given to all who care to advance themselves. Books on banking are eagerly sought after, and it is of record that local book dealers sell all the latest publications as soon as they arrive.

Many of the staff of the Chinese banks have been recruited from the foreign banks, but they do not form, however, the majority. The native banks have also supplied their quota. In general nowadays the banks prefer to take in good novices and train them up. Fathers have shown eagerness to place their sons in the local banks, both foreign and Chinese. Parents with more ambitious ideas have sent their sons to Europe and America to specialise in banking and economics. These are spread all over China and a good number of returned students are in the employ of our banks. They are also in the various schools. In the days to come there will not be wanting institutes of bankers such as Europe and America can boast.

Education Is Helping

While the schools in general are not neglecting to train the students in mathematics and banking there are several commercial journals which are devoting some space to banking. There is at present a weekly journal specially devoted to banking. It was founded by Mr. Chang Kung Chuen, a former submanager of the Bank of China, who is at present the vice-governer of that Bank in Peking. This journal the *Weekly Banker*, is supported by several banks and its continuity is assured. It is as yet to grow in size and importance and in all probability one day it will be to the Chinese what the English and Scottish Bankers magazines are to the people in Great Britain and the numerous American publications to the Americans.

Though we have not yet published learned speeches from the chairmen of the various Chinese banks, reviewing the condition of trade, discussing monetary problems, or dwelling on financial intricacies and vagaries of exchange, the reports of our various banks shed light on the business condition of this part of the world. Those who have taken the trouble to read these reports will find them of some interest as various commercial activities and prospects of trade are dwelt upon.

The Chinese bankers have also their association where business is discussed and other matters decided.

Starting New Moves

The Chinese Bankers Association was formed on the 2nd moon of the 6th year of the Republic (March, 1917) but was not formerly opened until the 8th day of the 7th moon of the 7th year of the Republic (July 8, 1918).

(*Continued on page 35*)

The Chinese Exchange Brokers' Association

BY T. M. HSI

THE Chinese Exchange Brokers' Association is the outcome of the growth of Chinese banking. It was founded in 1921 with only a few brokers. Its membership, which consists of those brokers passed and recognised by the Shanghai Chinese Bankers' Association, has since increased to ten members.

The primary objects of the formation of such an association are:—first, to regulate, with the cooperation of the Chinese Bankers' Association the number of brokers doing exchange business and, secondly, to enforce strictly the rules and regulations as passed by the Chinese Bankers' Association. The brokers' association is therefore more or less affiliated with and under the auspices of the bankers' association. The members are to engage only in domestic and foreign exchange business, between banks and merchants, chiefly inter-Chinese banks.

Within the last few years the development of foreign exchange business by the Chinese banks in Shanghai is one of the chief features of Chinese modern banking. Prior to the European war (with the exception of domestic exchange business) the business in exchange transacted by the Chinese banks was insignificant. Owing partly to the almost non-existance of Chinese import and export firms together with the absence of our own shipping facilities and to the lack of proper foreign connections abroad of our banks, we were content to leave nearly all our foreign business to foreign firms and banks.

Notwithstanding the continuous political troubles, the expansion of trade in recent years has been marked and has thereby led to the growth of banking. So it gave rise to the need of taking up the business of foreign exchange by our Chinese banks. With a view to facilitating the transaction of exchange business, there came the existence of the Chinese exchange broker.

The function of the broker is strictly limited. He does not deal himself, nor does he engage in any business other than exchange. In case of merchant business he is sometimes asked to guarantee the fulfillment of the contract entered into through him. But his main duty is confined to linking up one purchasing bank and one selling bank, or the case may be connecting the existing supply and demand between a Chinese bank and a gold dealer. The latter has lately been quite an important factor in the local market of exchange and sometimes serves a very useful cover for genuine business.

With regard to the commission paid to the broker, it is fixed by the Chinese Bankers' Association as follows:—for domestic exchange 0.25 per mille and for foreign exchange same as that charged by the foreign broker; namely, 1.25 per mille and in "cross" business or "change-over" 0.625 per mille, always paid by the selling party to the deal on the equivalent in local tael amount.

The success of the association, which is quite new, an infant organisation, will still to a great extent depend upon the assistance of the Chinese bankers. So far ten brokers are concerned. This number is by no means small for the business just now. On the other hand if compared with the Foreign Exchange Brokers' Association in Shanghai, our number is only one-fifth of the latter's membership, of fifty members. But, however, as trade develops, the business of exchange both domestic and foreign will undoutedly grow in importance in Chinese banking, and with it, it is hoped, will come the growth of the Chinese Exchange Brokers' Association.

Chinese Participation in Exchange Brokers' Association

(*Continued from page 34*)

The promoters were:—Sung Han Chang, (Bank of China; K. P. Chen, (S'hai Com. & Sav. Bank); Li Ming, (Chekiang Industrial Bank;) Yuenfong Ralph Sun, (Chung Foo Union Bank), and others.

The original members of the Association were The Bank of China, The Bank of Communications, National Commercial Bank, Chekiang Industrial Bank, Chung Foo Union Bank, Salt Industrial Bank (Yin Yih Commercial Bank) and The Shanghai Commercial & Savings Bank.

The present members of the Committee are:—Sung Han-chang, Y. M. Chien, Shen Chu-hsu, Li Ming, Nyi Yuen-fee, Yuenfong Ralph Sun, S. Y. Dien, K. H. Ling and F. S. Yih.

The Chinese in general recognise the value of the foreign business and the necessity that the best relations should be established between the foreigner and the Chinese, for without mutual cooperation, trust and a feeling that one must depend on the other, the trade will ever be under a pall of suspicion which will bring distrust. The welfare of our country depends largely on the foreign trade, which must be developed on a proper and not artificial line. Our desire to participate more largely in the foreign exchange business is to expand our trade with our own capital and with our own financiers. This is not selfish, but it is natural that we should participate in the financing of our own trade.

New Legislation Is Needed

We have yet to complete our banking regulations and laws. Up to now we have to rely more on the custom of the foreign bank and take foreign banking laws for our guidance. Time will come when we shall have so complete a set of regulations as not to leave anything untouched; these should include the law governing the issue of notes, proper supervision of accounts, the publication of duly audited balance sheets, a proper inspection of all the books and other regulation of affection the relation between the banks and their customers. The drawing up of such laws should be aided by bankers so that the code may receive the best attention from experts.

Before I conclude it may be of interest to give the list of Chinese banks at present doing business in Shanghai, a pretty long list, which may at first seem to be too long for a city like Shanghai. But as everyone has its clients and is more or less leading a career of prosperity, the number is not in excess of the trade demand.

Chinese Banks under Chinese Law Doing Exchange Business

Bank of China (Government Bank)
Shanghai Commercial and Savings Bank
China and South Sea Bank
National Commercial Bank
Chekiang Industrial bank
Chung Foo Union Bank
Bank of Canton (Branch at San Francisco)

(*Continued on page 65*)

Chinese Provincial Banks

BY Y. P. S.

PROVINCIAL banks were in existence before the founding of the Republic in 1911. Though not well known, they are, nevertheless, important financial institutions of the provinces. Their growth has been rapid and their importance has been increasing. To-day in almost every province we find a provincial bank, i.e, a bank in which the provincial government owns a part or the whole of the capital stock, and which serves as the depository of provincial funds. Each provincial bank has branches throughout the province, and the aggregate of the branches of all provincial banks can easily form, so to speak, a network covering the entire country. Putting together the capital employed in all these banks we find the sum amounts to approximately $25,000,000. These banks have always played and are still playing an important role in the financial and political life of the province and the nation.

For several reasons the provincial banks are not well known to the public. First of all, these banks are not organized on any uniform plan. Secondly, the functions, the sources of capital, the amount of capital and the relationship to the provincial and national governments of these banks are varied. Thirdly, the conditions are never regularly published, and hence the difficulty of getting much information for the public.

Historically, the provincial banks are traceable to the government money shops of a century ago. In the late years of Emperor Kwangshu, these money shops were found in almost all provinces of China, acting as agents of the government for circulating copper coins or issuing paper money. During the period of 1909-1911, however, some provinces—such as Chihli, Szechuan Chekiang, Kwangsi, Kweichow, etc.—reorganized these money shops into provincial banks. After the revolution in 1911, most of the money shops were suspended and provincial banks organized to take their places. Thus provinces which still had money shops as their financial agents before 1911,—like Kiangsu, Kiangsi, Anhwei, Hunan, etc.—have all organized provincial banks since then. These banks, similar to those established before the revolution, were made to serve as the depository of the provincial governments, and were given the power of issue at the same time.

Since these banks were not founded at the same time and under the same circumstances, they were subject to certain evils, among which were the lack of uniform organization, the diversity of financial activities and the reckless use of the power of issue. Aiming to correct these evils, the ministry of finance in 1917 promulgated a plan whereby these banks were to be reformed. The plan is:

(1) To adopt a set of general regulations which would provide for a uniform organization and govern their activities.

(2) To ascertain the exact amount of paper money in circulation, to prohibit further issue and to retire outstanding notes.

(3) To limit the amount of advances to the provincial governments.

(4) To facilitate domestic exchange between provinces by making the provincial banks the correspondent of each other.

If the plan of the ministry had been closely and persistently followed in all provinces without any interruption up to the present time, the system of provincial banks would have been unified and the various issues of the provincial banks would have been replaced by the uniform issues of the central banks. Unfortunately, this plan, though in effect for some time, could not be carried out throughout all provinces, owing to the declaration of political independence by some provinces. While other provinces are still in name under the control of the central government, it is rather doubtful as to the ability of the central government to enforce the plan to any great extent. Nowadays not only old issues are still found in circulation in many provinces but tremendous amounts of new notes have been issued at a greatly depreciated value in provinces like Hunan, Kwangtung, etc. Conditions in those provinces are much worse than in 1917.

Another question which has received much attention in connection with provincial banks is that of capitalization. Though founded on the basis of the government money shops, not all provincial banks are entirely financed with provincial funds. Some of these banks are jointly owned by the provincial government and private shareholders. This joint ownership has its advantages and disadvantages.

In the first place, joint ownership places the bank in a position to command more capital. The financial ability of the provincial government may be limited, but that of the public is, in a sense, unlimited. Especially if the bank proves to be a money-making enterprise, private funds can always be attracted to it. A second advantage of joint ownership lies in increased efficiency of supervision. The risk of diminishing the capital contributions through mismanagement acts as a powerful inducement for the private shareholders to exercise strict supervision over the work of the bank. Closely connected with the foregoing point is the third advantage of comparative freedom from political interference. It is evident that the provincial government can not arbitrarily order the use of the funds of a jointly owned and operated bank. There is a fourth advantage that of closer connection with the market. By virtue of the fact that the bank is partly owned and operated by merchants, the bank is brought closer to market conditions, a knowledge of which is essential to the formation of better and more accurate business policies.

Of the disadvantages the greatest is the conflict of interest between the government on the one hand and the private shareholder on the other hand. To give an illustration, there is the Chekiang Industrial Bank. This bank was started in 1909 with Tls. 300,000,—government capital and Tls. 240,000, private capital. The bank was then not a profitable enterprise, and due to this fact it was reorganized in 1912 and again reorganized in 1915. The second reorganization effected some changes touching not only the details of the bank's organization but also its capitalization. The capital was then changed to $300,000 government and $500,000 private. While after the second reorganization the business of the bank was considerably improved, the loss incurred in the previous period, however, was not entirely recovered. Three years ago the bank proposed to increase its capital to $2,000,000. In consequence of the inability of the Chekiang government to subscribe for its quotum, the

(*Continued on page 79*)

Shanghai Mint to Pour Out Silver Dollars

BY ROY C. BENNETT

WITH four hundred thousand or a half million Chinese silver dollars a day going into circulation in China through the operation of the largest mint in the world, which now is in the process of construction in Shanghai, tangible progress will be made toward unifying the monetary system of the Republic of China. The construction in Shanghai of a coinage plant that will represent the superlative of modern and scientific design and construction is the one big step taken so far toward the centralization and stabilization of the monetary system of China.

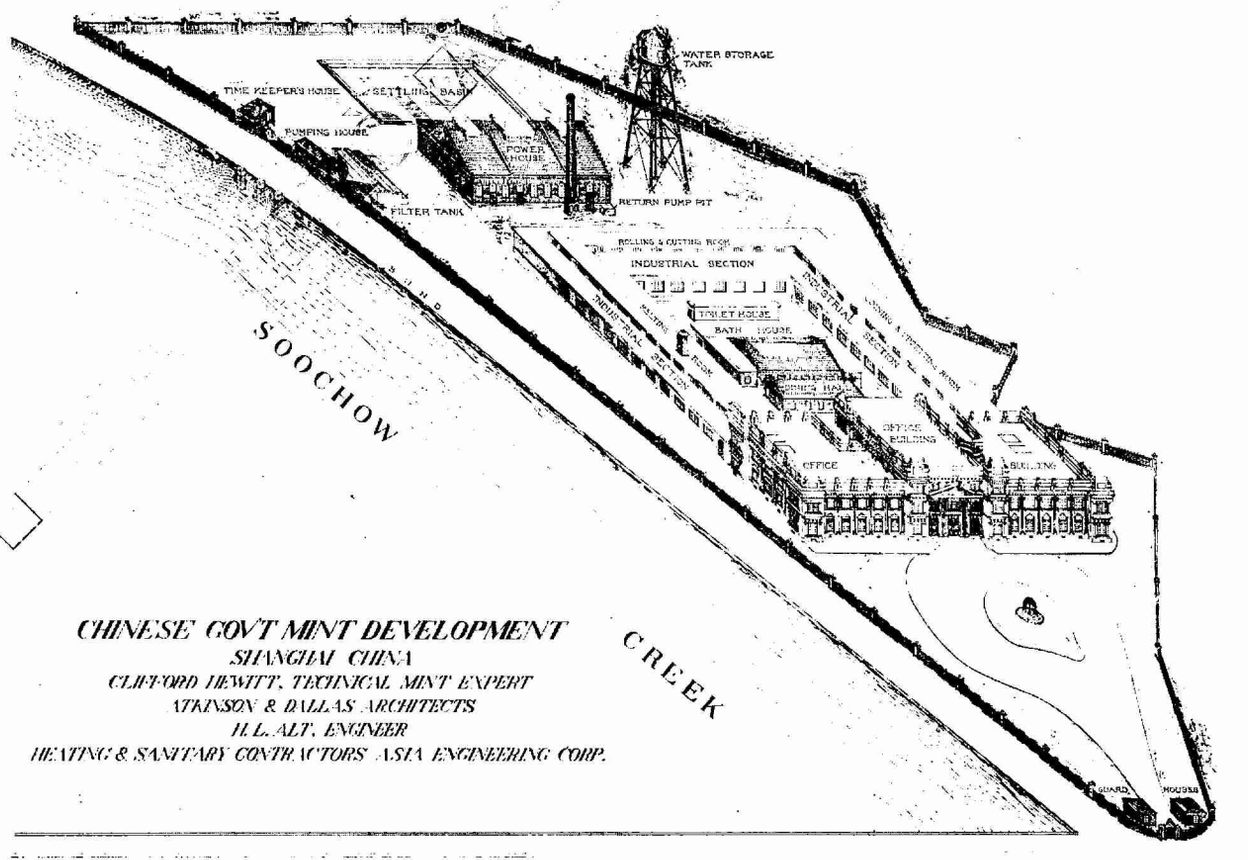
The building to house the mint is complete, with the exception of installing light fixtures and putting on a few minor finishing touches here and there, and the mint machinery, especially designed and constructed for this plant, is in Shanghai ready to be installed. The installation of machinery will require eight months or more. When completed the mint will represent an investment of nearly six million dollars (Mex), including the land on which it is located.

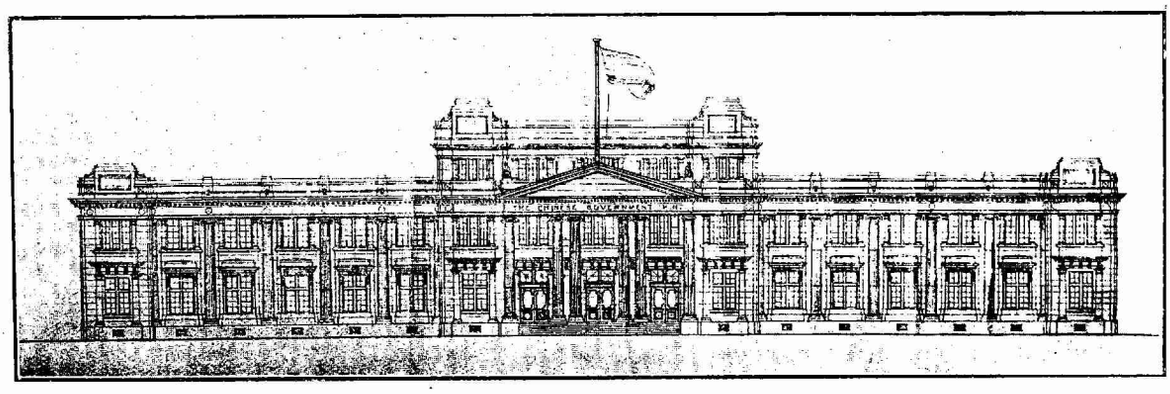
This plant will be equipped with the most modern machinery to be found in any mint in the world. The machinery was manufactured in United States, in the plant from which came the machinery of the American government mint at Philadelphia and other mints of like caliber. The plant throughout was planned by Clifford Hewitt, builder of the Philadelphia mint and the Philippine government mint. Much of the machinery was especially designed by Mr. Hewitt, although much of it represents general world development of minting machinery. The machinery was purchased through the American Trading Company of Shanghai and the Wah Chang Trading Corporation.

To Be Self-sustaining

The mint will generate its own power, make its own gas, and will in fact be practically self-sustaining, except that it must get coal from outside and pump water from Soochow creek, upon the bank of which the mint stands.

As an industrial plant this will be a model. In its plan it takes into consideration the welfare of the laborers, as well as efficiency in production and operation. As an illustration of provisions in the mint for overcoming the waste of the precious metals used in coins, it might be stated that in the plant there will be a large tank into which will flow all the water used in washing metals and coins, and in this tank the water will stand long enough for all particles of metal to settle. Likewise with the smoke from the metal furnaces. The smoke will pass through a large chamber, which is so constructed as to hold the smoke long enough for particles of metal carried away by the draft in the furnace to settle on the floor. The





Shanghai Mint Building, Nearing Completion

accumulations on the bottom of the settling tank and the smoke chamber will be removed occasionally and the metal therein extracted. This feature is mentioned merely as an illustration of the character of the plant. Building and equipment have that same thoroughness throughout.

Operation of the plant will take several hundred men, a large number of whom will be skilled laborers. For the accommodation of the laborers adequate bath houses have been constructed, the bathing facilities including a swimming tank. This again is mentioned to afford an idea of the character of the plant.

The main building, or administration building, which is a two-story (three stories in the central portion) reinforced concrete structure was constructed by Yao Sing Kee, Chinese contractor. In this building will be the offices and general administration quarters as well as living quarters for a part of the staff and also laboratories for testing and assaying of metals. The building is a commodious and attractive structure.

A description of the plant is inopportune just now because it is not complete. In fact, one could not describe what it is going to be from what it is now. Nothing is complete, except the building, and it looks incomplete because of the absence of furniture, fixtures, machinery, etc. However, this article is not intended as a description of the plant, but a discussion of the place of this mint in the monetary system of China. Other contributions in this magazine indicate in a measure the degree of disorder and decentralization that exist in Chinese finances and monetary affairs in general. It would be an injustice to present these discussions of the chaos without adding something of steps toward stabilization. Therefore the Shanghai mint has a significant place that should not be overlooked in a discussion of Chinese national finances.

Mintage to Center Here

In so far as the manufacture of money is concerned this mint it to be the center of China. This will be the central mint, the one with which responsibility for the maintenance of standards in the quality of coins will rest. Other articles appearing in this magazine clearly and truthfuliy convey the impression that a dollar, a copper or a cash had no definitely fixed value in China. The reasons for that are readily understood when it is recalled that each of the various mints in the country operates practically as those in charge of it wish to have it operate. The fineness of metal used in a coin, say a 20-cent piece, varies according to the whims or the needs of the one or ones in charge of the mint at any time. For instance, it is reported that the instrinsic value of the 20 cent piece coined by the Canton mint recently was reduced materially because the local government, which was temporarily in financial difficulties, needed the money that could be made from taking a bit from each coin. Canton mint 20-cent pieces have enjoyed a very great popularity far beyond the boundaries of Kwangtung (The Canton province). This popularity was due to the intrinsic value of the coin, and therefore the effect of a change in the intrinsic value of the coin can be understood.

One of the first acts of the Shanghai mint will be the adoption of standards for coins. Then the coins will be minted in sufficient quantities to extend their field of circulation throughout the country. For instance, silver dollars will be minted in sufficient quantities to furnish the country with money of this denomination, and the dollars will be of a standard fineness and weight. It is planned to replace the Mexican dollars now in circulation with these dollars as rapidly as possible. Probably Mex dollars will feed the melting pots of the Shanghai mint before it has been in operation many months. With these standard dollars going into use throughout the country, it is planned to have the Mexican dollars disappear gradually until the dollars of China will be a Chinese, and not a foreign, coin. The same will be true as regards other coins of smaller denomination, except that the process of standardization will be slower. Even a six-million dollar mint, with a capacity of a half million coins a day, cannot furnish the wherewithal to disentangle China's monetary jumble over night. However, the program of which this mint represents a part calls for reaching out to other mints of China to reorganize the minting system generally in China. This, however, pre-supposes political reunification and centralization of the government. The idea is that the Shanghai mint will set the pace, and establish standards which the smaller mints will be called upon to maintain. A realization of such a plan, however, is impossible as long as the other mints are under the control of local governments which are independent of the central government as is the case now.

In the operation of the mint here every effort will be made to cooperate with the business interests of Shanghai and China in general to the fullest possible degree. Among the features deserving of mention in this connection are provisions for the safekeeping of bar silver, sycee and coins for banks and commercial houses, etc. The mint will have large vaults, in which almost unlimited quantities of silver could be stored, in about as great a degree of safety

(*Continued on page 78*)

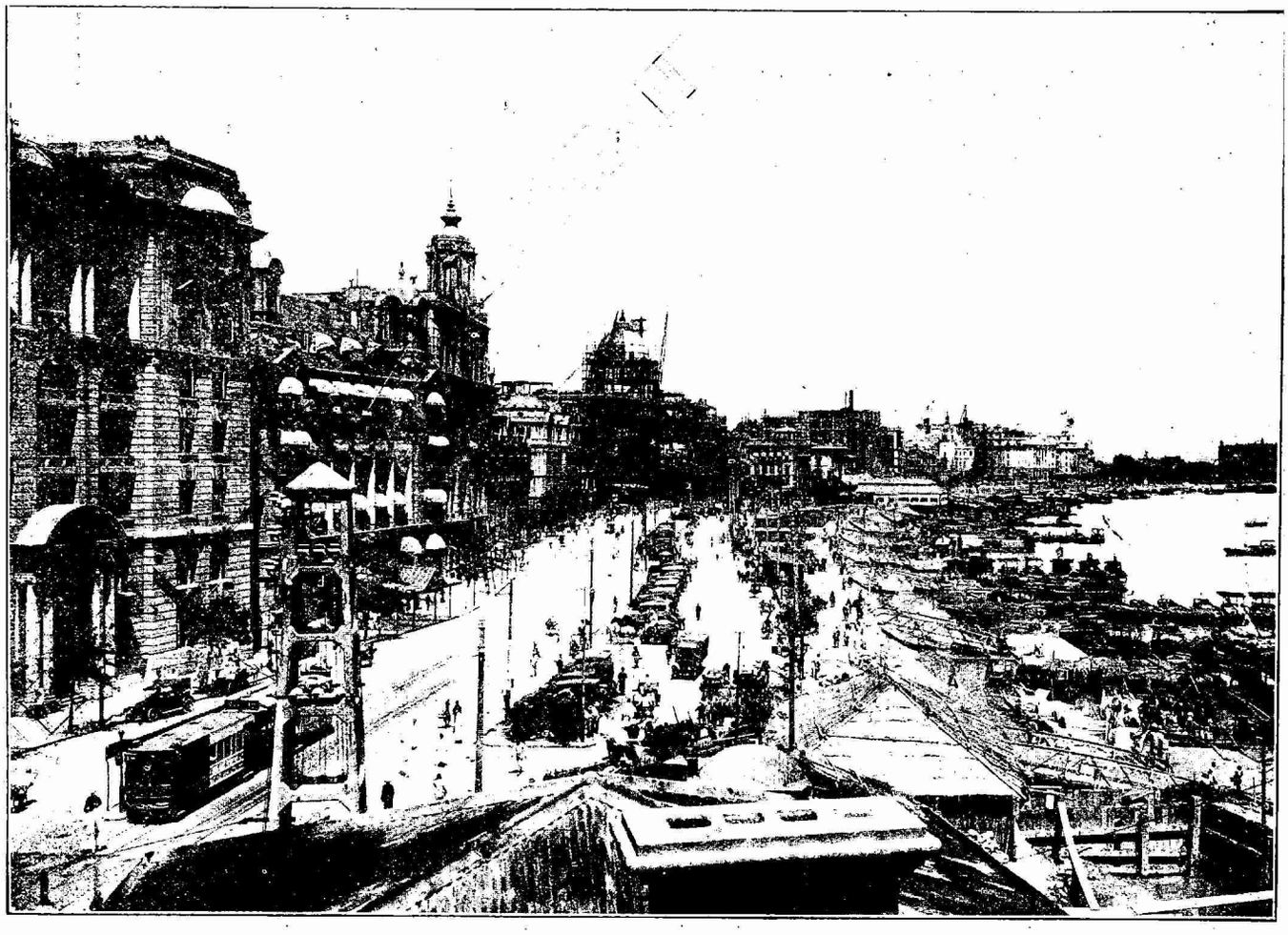
Exchange Rates Fluctuate When Speculation Influences Market

BY ROY C. BENNETT

EVEN if some force could be brought into play to eliminate from foreign exchange transactions in China all that influence belonging to the realm of business which is purely speculative, the future rates here could not be expected to follow the kind of curve that theoretic economists chart. Furthermore the elimination of the influence of purely speculative transactions is an utter impossibility under the present circumstances. Movements of the rate of foreign exchange in China are extremely erratic. They are influenced by such a combination of factors that no ordinary formula would fix or forecast them even if the speculative element were removed. Therefore when speculation comes in as strong as it does the situation grows more involved by geometric progression. The handling of exchange transactions on a large scale in Shanghai (Shanghai is used to mean China because Shanghai is the center of exchange transactions in China) is a job for experts, those who have become expert through long training in the school of experience.

The jumble of uncertain factors seems to appeal to the speculating instincts of large numbers of persons. Chinese like to take chances on a large scale and the field of foreign exchange gives them ample opportunity to satisfy this craving. There is no way to get a fairly accurate estimate of the approximate percentage of the exchange transactions here that are purely speculative, but according to conservatists in the exchange business, one is absolutely safe in saying that at present the percentage is above fifty. These purely speculative transactions contribute a factor in the business that no one under the shining sun can foretell. The movements of the rate, in so far as this factor is concerned, are as uncertain as the weather in March.

Until a few years ago exchange transactions in Shanghai were carried on almost altogether in the name of legitimate trade. Of course there were a few deals for the speculator from time to time, but the percentage of such deals was so small that they constituted a negligible force in this field. However, when the finances of the world became unsettled and when the resulting nervousness and restlessness began to be felt here the speculator saw an opportunity. When exchange is steady speculators are unconcerned; there's little or no appeal to them. But just as a moving object attracts the human eye more readily than does a still object, so does moving exchange rates attract the speculator's eye more readily than stationary rates. When the world began to gamble on money, in money and with money Shanghai got in the game. Since the historic days of war-time commerce and finance the exchange banker of China has had to reckon with the part the speculator plays in the



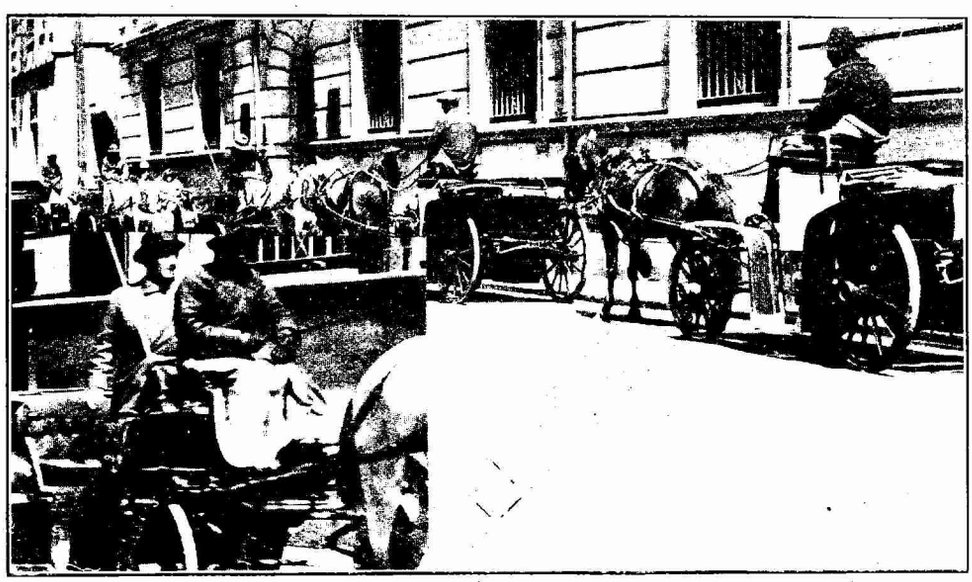
THE BUND IN SHANGHAI

This is rapidly becoming the Wall Street of the Orient. It already is bankers' row and new structures to house financial institutions are in the process of construction. Chinese and foreign banks stand side by side and are strong competitors one with the other for business.

exchange business. From this the reader is not to assume that the exchange banker of China is a gambler. Many are those who think he is, and unquestionably some banks thought that they were, but learned to their sorrow that they were flattering themselves. The Philippine government is still paying on losses incurred by the Shanghai branch of the insular government bank before it was forced to quit the Shanghai field.

Exchange Banks Hold Vital Place

Exchange bankers of Shanghai resent the widespread opinion that they are speculators. What is written here is based largely upon statements made by three persons, two of whom are prominent in the exchange business of Shanghai. One of these two, a banker, explained that he was not in the gambling business although he was in a business in which large speculating was carried on. He dwelt upon the fact that the bank was in business to finance commerce, or as he expressed it the exchange bank is in business to finance movements of commerce. After calling attention to the importance of the transportation of products to market, he explained that this movement



EXCHANGE BROKERS "OFFICES"

In Shanghai foreign exchange brokers are known by the rig in which they ride On account of the crowed condition of the streets they find light traps, pulled by native ponies, the most convenient and speedy means of transportation for dashing about the streets as the nature of their work requires of them. These vehicles constitute the fraternal badge of the exchange brokers' association. This photograph shows a line of traps in front of the Hongkong and Shanghai Bank where the brokers go first thing in the morning to get their rates. The inset in the lower left of the picture shows a broker standing in his trap—many of the brokers always ride standing.

of products backward and forward between the producing and consuming centers of the world makes the exchange bank quite as essential as the bank that finances the production of the materials going to make up the products in the first place. This statement was made in response to a reference to the fact that foreign banks in China are primarily exchange institutions.

The well-established foreign banks strive to avoid out and out speculating on exchange. In protecting himself against such speculation the banker frequently finds the speculating exchange dealer a great convenience, since the latter individual creates a market that otherwise would not exist. This point will be considered more fully later in this article in connnection with a discussion of the speculator's influence on the exchange market.

An explanation of the exchange banker's operations which is far more comprehensive than the writer of this article could attempt to give is found in the "Commercial Handbook of China," compiled by Julean Arnold, American commercial attache to China. The following is a quotation from this publication, taken from the chapter on exchange and banking written by G. Passeri, who was financial adviser to the Bank of China:

"The ideal exchange operation for a bank is to buy at one rate and sell at another immed ately, or before the clos ng of the working day, leaving a margin of profit. As an instance, the easiest operation would be to sell T/T on London at 5/1 and buy back at 5/1¼ or, to be still more explicit, to buy T/T on New York at 121 1/2 and sell at 121. It will be understood that, though this is within the range of possibility it very seldom becomes a reality, and the exchange manager has to find other means to cover his transactions.*

Exchange Positions

"It is customary for him to keep what are called exchange positions," recorded in statements with all details of rates and deliveries. This exchange position means simply that the bank is either overbought or oversold to a certain extent, or, in other words, that a certain amount of its exchange transactions are not covered.

"It is in the taking of this exchange position, and in effecting the eventual cover at the best opportunity, that the exchange manager shows his ability. That ability and actual experience are necessary qualifications in a successful exchange manager will be evident if one realizes the difficulties in his way.

"It must not be thought that the taking of their positions means gambling, because an exchange manager who knows his business is not gambling when he applies his knowledge and his intelligent perception, acquired by years of practice, to the carrying out of his operations. Nor is it necessary for him to take only one position; he can take them both ways, or, in other words, he can be overbought and oversold at the same time and still not consider that he has to put one against the other.

Forward Contracts

"Exchange contracts for buying or selling are made not only for ready delivery but also for forward. If one wishes to buy T/T on London from a bank, say in June, contracts can be settled for delivery in December, but, of course, the rate obtained for December will be lower, the difference being entirely

*An exchange man, commenting on Mr. Passeri's explanation of the banker's efforts to keep himself protected suggested that the illustration given by Mr. Passeri would have been better had he spoken of the banker's buying and selling import and export bills, balancing one against the other daily.

(*Continued on page 82*)

The Ministry of Finance, Its History and Organization

BY S. G. CHENG

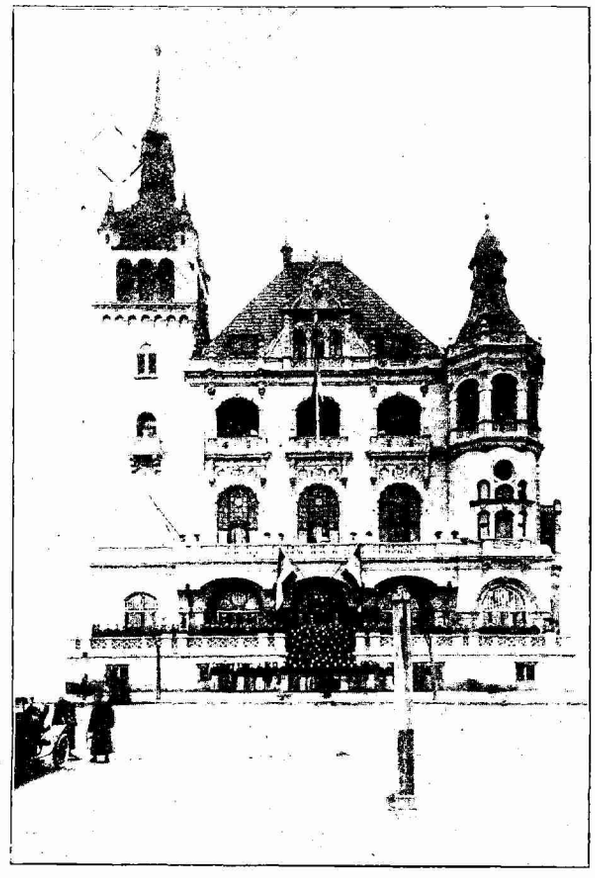
FROM time immemorial, the government of China has been provided with a ministry of finance. It was known under different titles in different dynasties, and its organization and functions also vary with time. During the Chou Dynasty, the minister was called Ta Shih Dong, or controller general of agriculture, showing thereby that at a time when a large part of the land in the country was imperial domain and the only important source of government revenue was land tax and payment from farmers, it was difficult to distinguish a minister of finance from a minister of agriculture. In the succeeding dynasties, the same difficulty persisted, though to a less extent, and as in many other countries in medieval Europe, the national revenue was always considered to be synonymous with the revenue of the imperial household, and the emperor had supreme control over expenditure. Even as late as in the Manchu dynasty which preceded the republic, it was not realized that proceeds of taxation should be made separate from the private income of the throne and its power to control the purse should be curtailed and checked. But the ministry of finance, known as Hu Pu, was much improved in organization, being divided into sections to correspond to the number of provinces. Each of the sections was in control of the land taxation in the province designated in addition to some special functions common to the whole empire, such as salt administration under the care of the Shantung section and currency system under the care of the Kwangsi section. The principal duties of the Hu Pu were, as outlined in the laws and regulations of the Manchu dynasty (Ta Ching Hui Tien), control over demarcation of administrative areas and system of taxation, preparation of census, provision of salaries and allowance to officials and troops, upkeep of grain store, and maintenance of public transportation both by land and by sea. It should be remembered that during the Manchu regime, the provinces enjoyed autonomy to an extensive degree and the ministry of finance had very little to do with their own finance, so long as it received from them a quota of revenue in time.

The Division of Revenues

With the establishment of the republic, an attempt was made to centralize the financial administration of the whole country and to make a clear division between the revenues of the central government and of the provinces. Taxes and duties were divided into three categories: (1) those intended for the central government and collected by officials directly appointed by it; (2) those intended for the central government but collected by provincial officials together with provincial tax and rates, and (3) those intended for the provinces and collected by their own officials. To the first category belong custom duties, salt gabelle, stamp duty and wine and tobacco tax. To the second belong a part of land tax, likin, title-deeds and a few items of miscellaneous tax, whereas another part of the land tax, house duties and license duties come under the third. It was hoped that with these divisions of revenue, the central and the provincial governments would cease to interfere with each other in appropriation of funds and each have adequate means to discharge functions assigned to them by the law, but the enormous emergency expenditure caused by civil strifes in the first few years of the republic made it impossible for the government in Peking to observe any prescribed rules and the loss of control by it over many provinces in the last few years gave the latter an opportunity not only to retain all the revenues under (2) but also to interfere with a regular remittance to Peking of revenues under (3).

The ministry of finance, as now organized under the law promulgated on July 10, 1914, is well prepared to deal with the administration of China's finance so long as political conditions permit it to exercise its authority. Its multifarious duties may be seen from the nature and importance of functions divided among its six departments as detailed below:

(1) Heading the list is a general affairs department. Its duty lies in administration of public properties belonging to the ministry, in maintenance of its establishment and personnel and in preparing its estimates and keeping its accounts. It keeps the archives and seals of the ministry and scrutinizes the accounts of offices directly under it, such as those of the bureau of printing and engraving.



The Shanghai home of the Bank of China, a government bank

Tax Department Is Important

(2) Next in order comes the tax department. As implied in its title, its duty is to attend to all business connected with imposition, collection and investigation of taxes and to keep an account of tax receipts and their disbursements. It is also the final authority in charge of measurement and registration of land and to control public institutions so far as their incomes are concerned.

(3) Thirdly, there is the accounting department. It receives and scrutinizes estimates and statements of accounts from all the ministries and the provinces. It compiles annual budgets and general state-

The Shanghai Office of the Bank of Communications. Formerly this building was occupied by the German Bank

ments for account and submits them to parliament and the bureau of audit. For any deviation from the votes passed by parliament and any appropriation from the contingency fund, its authorization must be obtained first. It is through this department that the ministry of finance exercises a control over the expenditure of all government offices.

(4) The currency and banking department is responsible for the control and reform of China's complicated currency system. It undertakes investigations into the defects of Chinese coins and various media of exchange. It keeps a record of the number of coins in circulation and compiles statistics on currency and banking. Furthermore, it is to exercise control over export and import of bullion and coin, and over mints, banks, note-issues and reserves against notes. Finally, it has the pleasant duty of being well informed on monetary situations, both domestic and foreign.

(5) By far the most important department in the ministry of finance, as it exists today, is the public loans department. Naturally, it is to exercise a control over the issue and management of loans and treasury bonds and responsible for redemption of, and payment of interest, on loans and treasury bonds and bills of whatever description. As its routine work, it keeps an account of all the loans and bonds and registers transfer of bonds. When China's government credit is high, it is usually busy with negotiations and conclusions of loans and overdrafts to make both ends meet but now that the government is rightly or wrongly, proclaimed to be on the verge of insolvency, it is daily thronged with creditors who want obligations contracted with them, redeemed.

Related to Various Bureaus

(6) Finally there is the treasury department. Speaking more correctly, it is the banking department of the government. It keeps in custody all government funds and meets orders to pay issued by the accounting department and signed by the ministry of finance. In practice, it places money on deposit with banks and draws checks against its deposits to meet any authorized expenditures.

In addition to these six departments, there is a new department in charge of the stamp duty. It is the central authority to issue stamps and is responsible for enforcement of the stamp duty act of October 21, 1912.

So much for the ministry proper. But a description of the machinery for financial administration in Peking would be incomplete if no mention were made of some other departments or bureaus either independent of or subordinate to the ministry. There is the inspectorate general of maritime customs, once under Sir Robert Hart and now under Sir Francis Aglen. It is in full control of the actual administration of the maritime customs together with harbors and lights. It is theoretically subordinate to the ministry of finance but in practice, it has a large amount of independence. It presents annual and quarterly reports to the ministry as well as to another office named Shu Wu Chu which exercises a joint control over it. The Ministry is the final authority for appropriation of customs receipts and any change in existing rules and procedure.

A central salt administration, together with a chief inspectorate, was created in 1912 as a result of the reorganization loan. The administration has to deal with all questions relating to production, transportation and taxation of salt and establishment of public depots and a preventive force against smuggling. The chief inspectorate is responsible for collection of taxes and rendering of accounts by district inspectors in the provinces. The minister of finance is concurrently controller-general of the salt administration and the head of the administration is ex-officio chief inspector with a foreign colleague as associate inspector.

Taxation on wine and tobacco and their public sale are under the charge of a bureau with its own organization and personnel fully independent of the ministry of finance.

Furthermore, it should be mentioned that the receipt and expenditure of the central government of China is not centralized and very handsome annual receipts from the post office, railways and telegraphs together with their disbursements are under the exclusive care of the ministry of communications and have nothing to do with the ministry of finance.

The Chinese Banks and the Government of China.

K. P. WANG

Of the Peking Bankers' Association.

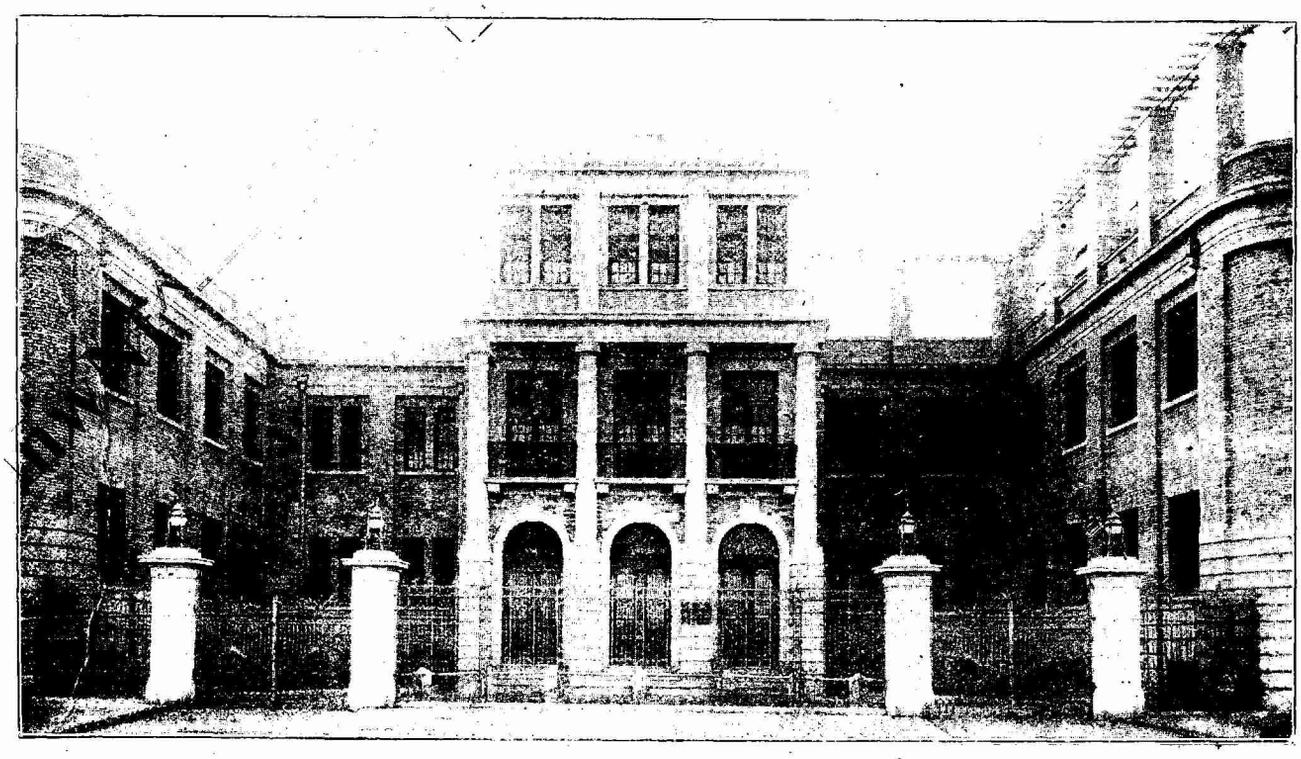
THE relationship between the Chinese bankers and the government of China is a rather recent one, though the institution of banking, like many other institutions in China, is very old. For centuries and centuries, the historical annals of China has been full of records concerning Chinese banking and the Chinese bankers and their activities along industrial, commercial and trade lines. However, not until the establishment of the republic, was it hardly possible to cite a single occasion out of these annals during which the Chinese banks played an important role in the political life of the country. With the establishment of the new form of government, every institution in China adopted a new phase of life, a life tinged with modernism and republicanism. Just as the new government undertook to build a different foundation for political machinery of the nation, the banks too began to experiment in many fresh activities which had never been tried before.

Among those activities tried, there was the system of flotation of internal loans, through which the banks, partly due to their realization of the new responsibility bestowed upon them by the republican government and partly due to their desire to seek possible fortune through this new form of business enterprise, offered their assistance to the government in order to enable the government to meet the financial need of a great many newly created branches of governmental work. This was the first instance when the government and the banks came out in the open together, and worked side by side for the benefit of the public.

Since then, a continuous inter-relationship between the government and the banks followed, and millions of dollars have been invested by the banks in various kinds of governmental enterprises. In the beginning of such a relationship, however, the banks were most of the time on the unfavorable side, because the government, taking advantage of the loose union of the banks, often dictated to the banks at its own will, and the banks, on the other hand, still preserving the old traditional trait of the Chinese people of paying respect to all governmental orders, had no other choice except to comply with the wishes of the government. Then the lack of leadership and foresight among the bankers also rendered them powerless and helpless to meet the proposals from the government, the solution of which required not only technical knowledge of modern banking but also thorough and digestive deliberations on the problems concerned. As a result, the government could put over the banks almost any project it wanted to carry, whether beneficial to the country or not.

Banker's Associations Developed

It was in that way the government exacted millions of dollars from the banks, and it was through that means the interests of banks were gradually disregarded. Government liabilities to the banks were one after another dishonored and loans of all nature, including the internal loans, were defaulted. Short-term advances were wrested from the banks without any adequate security, and any appeals from the banks for repayments of debts were accorded only



Home of the Chinese Bankers' Association of Peking

New home of the Commerical Bank of China on the Bund, Shanghai

vague assurances. As the patience of the bankers reached beyond its tolerable point, and as the prospect of government finance was turning from bad to worse, they decided that they should no longer remain divided and that in their relationship with the government they should adopt a united policy and present a united front. A few liberal and progressive bankers, therefore, proposed that the banks should change their methods in dealing with the government, and should exercise a certain amount of supervision over the government, at least over the expenditure of the loans they were to make, and that in carrying out this new policy, the bankers' associations should be established in the principal cities throughout the country, so that bankers could get together freer and oftener to exchange views about all matters of their interest.

Thus various bankers' associations were established in different cities in the years of 1920 and 1921. A new platform was announced in the form of a resolution passed by the Conference of Bankers' Associations in December, 1920, the gist of which is: The banks would not loan any more money to the government for administrative purposes, and for loans of constructive purposes, strict supervision on the expenditure of the loan proceeds should be exercised by the banks. This in substance was a challenge to the government, in fact, it was recognized by the financial circles of China as the Magna Charter of the Chinese bankers. Facing such a strong union of the bankers, the government could do nothing but accept their new platform.

With this new policy, and with a few loans made upon this basis, such as the car loan and mint loan, over the expenditure of which the bankers have been exercising very strict supervision, the bankers' associations have gained popularity throughout the country. Then the part which the bankers played in fixing the sinking funds for loan services of internal loans thus insuring the payment of principal and interests of these loans also deserves special mention, as by doing so, the bankers have rendered a great service to the millions of bond holders of the country as well as to the government itself. The friendly assistance which the bankers' associations gave to the Banque Industrielle de Chine in its hour of desperate need in July, 1921, and through which millions of dollars of bank-notes of the French bank were withdrawn from circulation was another meritorious act by the Chinese bankers and remembered by the French people as well as the Chinese people.

While the bankers are making friends with the people of China and of the outside world, they have at the same time made themselves enemies of the government. By refusing to advance more money to the government for purposes other than constructive, the relationship between the government and bankers have become anything but cordial and friendly, drifting them further and further apart, As a counter measure, against the bankers, the government has not only signified its intention to defer all its debts to the various banks, but even also threatened to stop authorizing altogether the amortization of internal loans. Having found the situation to be helpless and detrimental to the whole nation at large, the bankers have therefore again changed their policy toward the government from one of supervision to one of non-cooperation.

The Bankers Express Themselves

It is interesting to read the following message, which the Peking Bankers' Association recently sent to the ministry of finance. Being of the nature of an ultimatum, to the Government, the message is one of the most important documents ever communicated between the bankers and the government.

"As the old maxim says that the Government should give fair treatment and just administration to the people in return for the people's co-operation with the government in way of taxation, and as during the recent years the government, owing to the political unsettledness, has been conducting its functions not along the lines that would yield benefit and blessing to the people, but on the other hand, caused suffering and harm to the whole nation our association can not keep our silence any longer and beg to call your attention to the following facts, sincerely hoping that you will realize the seriousness of the situation and hence introduce measures for remedy and improvment.

"Since the establishment of the Republican form of government in China, the people have their high expectations in the government. They have given every possible co-operation to the Government, particularly in financial matters. Every time there is an issue of internal loan which happens every year, the people subscribed to these loans with all the resources they possess, without the slightest sign of reluctance. The total amount of these internal loans now already exceeds $600,000,000. The government realized great sums of money mostly from the First Year Loan, Fifth Year Loan, Eighth Year Loan and Nineth Year Loan, but when it comes to the payment of interest and redemption of these loans, there has been always delays and shortages. As a last resort, readjustment measures were introduced, several of these loans were to be redeemed at discount and the dates of redemption of some of them were to be postponed.

"When all the available securities to make further loans were exhausted, the salt surplus was employed. One loan after another was made on the strength of the salt surplus as security until a point was reached when the surplus of the salt revenue was not enough to meet the service of the loans. Then another scheme was instituted whereby all these salt surplus loans were consolidated into one big loan, known as the ninety-six million dollars loan. Through this consolidation, the interest rates of all the salt surplus loans were reduced and their dates of redemption extended. Affected by the change of status of the loan secured on the salt revenue the interest of other loans. like the Peking Octroi Treasury Notes, etc., were also reduced. It must be pointed out that the people, throughout all this treatment by the government, have not lodged any protest.

"However the worst is yet to come. According to the arrangement made in 1921 for the service of the consolidation loan, a sum of $20,000,000 should be appropriated from the salt surplus and the ministry of communications was assigned as the sinking fund of the loan. But these payments have entirely ceased, and the service of the loan could only be met by the assistance of the customs surplus. The inspector

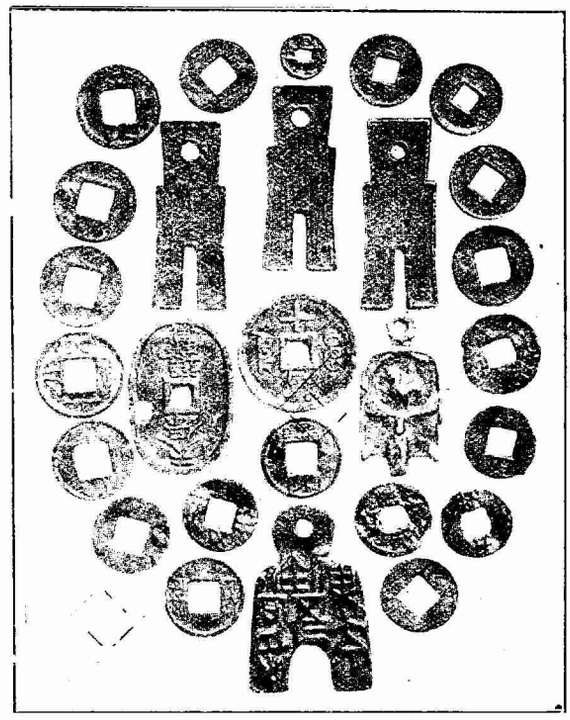
(*Continued on page 90*)

Trading with Foreign Money in China

BY ROY C. BENNETT

ALMOST every strong nation in the world has had its trial at reforming China's monetary system, such efforts taking the form of introducing foreign money as the circulating medium. The so-called Mexican dollar has outlived its alien competitors and today is about as near the national coin as anything. It entered China through the Philippine Islands when Manila was the center of Spanish trade in the East.

Foreign nations entered trade relations with China early in the sixteenth century, largely for the purchase of porcelain. Before the end of this century foreign silver began to pour into the country, coming principally through Spanish trade, via Manila. It will be recalled that before Spain annexed the Philippines late in the sixteenth century Spanish commerce was thriving in Mexico and Peru, from which rich stores of silver were flowing toward Spain and Spanish centers of trade. When Manila became a Spanish commercial center a stream of Mexican silver was diverted to the East. Eventually this followed the Spanish commercial flag to the various points of contact with other commercial nations. When Spanish traders established commercial relations with the Chinese they found themselves greatly inconvenienced through the lack of a uniform, convenient and usable money. To facilitate trade the Spaniards introduced their own coin, which means the introduction of the foreign dollar into China. The popularity of the Spanish dollar, sometimes referred to as the "Pillar" dollar from its design, (the Pillars of Hercules,) is indicated in a way by the way it outlived its alien competitors.



OLD CHINESE COINS

The coins in this picture all are cash, some of them several hundreds of years old. The round coin in the very center of the picture is an old Manchurian ten cash piece. The oval coin to the (reader's) left is a Ming dynasty coin. The small coins around the outer edge of the picture are cash of different ages.

In his book on "Chinese Currency and Banking," S. R. Wagel, who has made an intensive study of the monetary system of China in discussing the Carolus dollars says, "It is stated that the Portugese and Spaniards brought the dollar into China as early as the seventeenth century. Being practically the only coin that the Chinese had ever seen the dollar soon gained great popularity: and when the East India company began to trade with China, they had to import this dollar with which to pay their purchases of tea and silk. The introduction of the dollar was also made easier by the fact that Canton was the sole port open to foreign trade for nearly a century since 1757. Of the several dollars that came into China the Carolus dollar of Spain was more readily accepted than any other coin. During the Napoleonic wars about three-quarters of the trade of China was paid for in Carolus dollars. As usual the officials in this country were chary of anything foreign; they took steps to stop the inflow of foreign dollars. At the close of the eighteenth century the officials ordered the silversmiths to make dollars like those made by the foreigners. Apart from the fact that the workmanship in the coin was not quite as good as that of the imported ones, the silversmiths began to use a large proportion of alloy in order to make as much profit as possible. It is stated that in some of the coins that were issued there were five parts of alloy to eight parts of silver. The inevitable result was that the coins depreciated heavily and the government had to step in to stop private coinage. Further, all sorts of tricks were tried to delude the public; and business men were obliged to draw a line between the proper dollar and the imitation dollar. One of the steps taken was to chop the dollar with an impressed ideogram in order to give a guarantee of genuineness.

Other Foreign Coins Come In

"When this was repeated very often, the defaced coin in a few instances resembled a disc. Those chopped dollars were first in circulation in Canton and later on they circulated in practically every part of South China. Carolus dollars were the only foreign coins accepted by the population in the eighteenth century —even up to the early decades of the nineteenth century. During the succeeding decades these coins commanded a premium of at least thirty percent, until the Mexican dollar dethroned them from their high pedestal, about sixty years ago. Besides the Mexican dollar the other foreign coins which were more or less in circulation in South China up to 1840 were the Peruvian, Bolivian, Chilean dollars and the Indian rupee. The South American dollars found their way to China mainly because they were driven out of their home countries by the circulation of depreciated paper currency. It is interesting to note that in 1842 the following were the relative values of the different currencies; in order to pay Tls. 100.00 of fine silver it was necesary to pay by weight 111.455 taels in Peruvian dollars, 111.900 taels in Mexican dollars, 112.150 taels in Bolivian dollars, 112.520 taels in Chilean dollars, 109.790 taels in Indian rupees and 113.207 taels in chopped dollars. Although the Mexican dollar was steadily taking the place of the Carolus dollar in Shanghai and also in the Yangtze basin, the Carolus continued to be the money of account; and hence there was the steady import of

these dollars to settle balances. Enormous amounts were being imported; still the supply of Carolus was not sufficient to meet the actual demand for silver. The ravages of the Taipang restricted the consumption of imports, and notwithstanding increased importation of Carolus dollars collected from all parts of the world, these coins were at an extraordinary premium, which in 1855 amounted to 50 percent, and in 1856 to 80 percent.

"It thus became intolerable and gradually the people began to give up the Carolus and to take the Mexican more and more. Although various attempts have been made to replace the Mexican dollar so far it has never been displaced from general circulation. Many competitors of the Mexican have appeared in this field, but none have succeeded in gaining a footing in this country. The American trade dollar was introduced thirty years ago; the Congress at Washington was anxious that it should displace its rival by its weight—420 grains instead of 416 grains of the Mexican, the Chinese are a shrewd people and when they saw two coins put into circulation side by side, they naturally let the heavier coin go into the melting pot, thus every American dollar disappeared the moment it was put into circulation in this country. The Japanese dollar or the yen had a moderate measure of success; at first the coin was heavier and finer than the Mexican dollar and shared the same fate as the American trade dollar; but later the establishment of a gold standard in Japan put an end to the use of yen which was no longer a monometallic silver coin. The British dollar from Hongkong circulates to a very large extent in Fukien and the two Kwangs (Kwangsi and Kwangtung provinces). The French piastre is the coin of the colony of Indo-China; and it has a great measure of success, especially in Yunnan and Kwangsi. The Indian rupee is more popular than any other coin in the western borders of Yunnan and Szechuan, as also in Tibet."

Hongkong Money in South China

British colonial coin and bank notes, commonly known as Hongkong money since it is for that colony and the surrounding trade district, plays an important part in the monetary system of South China today, particularly when political chaos in Canton and the districts coming within Canton's sphere of influence throws the currency system there wholly out of gear. The accepted value of money in South China is most erratic, and when the changes in its value invite too great a degree of speculation the stabilizing influence of Hongkong money enters. Hongkong money circulates very largely throughout this district on that account.

British officials have experienced some disappointments with Hongkong money and its relation to trade in China. Efforts to introduce British Imperial money met with failure, and British officials were forced into the decision that since China's monetary system was on a silver basis the money for the Hongkong trade should be also. Benjamin White in "Silver, Its History and Romance," speaks of Hongkong money's relation to China thusly: "The position of Hongkong vis-a-vis with China has made a silver currency desirable, so long as the currency of China remains upon a silver basis, even though it is a British colony. The great eastern banks who finance trade with China were therefore, put in a position with the British government, to provide silver currency, whenever rendered necessary by the balance of trade.

"The British dollar and the Hongkong dollar, both issued at the weight of 416 grains and the quality 900/1000 fine, circulate in Hongkong as legal tender along side the Mexican dollar, the standard weight of which is 417.74 grains and quality 902.7/1000. British dollars in addition to being legal tender in Hongkong are legal tender in the Straits Settlements and the colony of Labuan."

W. F. Spalding, one of London's recognized authorities on matters pertaining to banking, in "Eastern Exchange Currency and Finance," goes more into detail regarding the ups and downs of the British government in giving Hongkong a monetary system that would work. In this connection he has the following to say:

"The circulation of silver dollars in Hongkong was in a fairly advanced state long before the advent of the British into the Colony. The old Spanish dollars had drifted to various parts in China—Amoy, Canton, and Ningpo – in connection with the trade instituted by the Spaniards with the Chinese in the year 1575. After the British took over the Island from the Chinese, matters were allowed to go on without interference for a time, until, on 29th March, 1842, a proclamation was issued making legal tender Spanish, Mexican, and other silver dollars, the rupees of the East India Company, and the copper cash current in China. This proclamation was applicable to all bazaar dealings, etc., but not to mercantile transactions. Two months later, on 27th April, 1842, a further proclamation was issued making Mexican and other Republican dollars the standard in all government and mercantile transactions at Hongkong. This proclamation was issued by Sir Henry Pottinger, then plenipotentiary and chief superintendent of the trade of British subjects in China; and although it is to be presumed that such action was not taken without reference to the home government, yet it is certain that it viewed his efforts with disfavor. The British were anxious to extend everywhere in their Colonies the circulation of English coins, and they saw no reason why Hongkong should be any exception to the rule. Accordingly, on 28th November, 1844, they issued a new proclamation revoking Sir Henry Pottinger's proclamation and fixing British silver as the nominal standard, with the following coins rated for concurrent circulation: East India Company's gold Mohur (coined since 1st Sept., 1835), £19s. 2d.; Rupee, 1s. 10d; Dollars – Spanish, Mexican, and South American, 4s. 2nd; Chinese 'cash' 288, 1s.

Chinese Continue Their Way

"In passing this Act, the government had not for one moment realised the actual position. The Chinese always, except in the most trivial affairs, carried out their transactions through the medium of silver by weight and not by count, and what they did was simply to ignore the new proclamation and to continue on the

even tenor of their way: the silver dollar was the one and only monetary unit they recognised.

Mr. Spalding's detailed discussion of the failure of the repeated efforts of the British authorities to bring Hongkong within the realm of the British imperial monetary system, of the vain efforts to adopt a British gold standard for the colony and its trade district, is too long for publication in full here. However, we quote him briefly from his discussion of the failure of the efforts of the colonial government to operate a mint. In this connection Mr. Spalding tells how anxious the colonial authorities were to mint "a good old British dollar with the British imprint." He closes his remarks in this connection with the following paragraphs relative of the failure of the effort:

Notwithstanding that these Hongkong dollars were moulded after the fashion of the Mexican dollar, and were 416 gr. (900 fine), they failed to catch on with the Chinese; other circumstances, to wit, the adverse exchange and a minting charge (seigniorage) of about 2 percent combined to make the new issue a failure, and before very long the dollars would only be accepted by the Chinese at a discount of 1 percent. or more.

This state of affairs dispelled all idea the colonial authorities had of continuing to coin their own dollars; and, within a brief space of two years, the Mint at Hongkong was dismantled, the machinery scrapped, and the whole lot sold to the Japanese. The mint had been open from May, 1866, to May, 1868, Some years afterwards it is recorded that the British dollars were to be found circulating at par with the Mexican coin; while the subsidiary coin, which at one time depreciated to no less than 35 percent gradually rose until par was reached; and then, owing to their convenience, a substantial premium on their nominal value was established by those eager to have the coins."

Hongkong has its own money now, silver dollars, subsidiary coins. and the banks of the colony issue bank notes, which are extensively used in Canton and surrounding districts. Hongkong money constitutes a stabilizing influence in South China.

When Spanish Trade Drops

With the decline of the Spanish in international trade prestige and with the falling off in the supply of silver attendant upon the revolt of the South American colonies, the quantity of metal available for mintage dropped and the effect began to make itself felt in China through a rise in the price of dollars. In this connection a pamphlet published anonymously in Shanghai in 1865 contained this description of conditions at the time of the Taiping rebellion:

"Such had been the state of things prior to 1853, when rebellion, with all its train of horrors and disasters, burst upon central and northern China, deluging the land with blood and spreading ruin and desolation far and wide. Then since, on the other hand, the Carolus dollars were eagerly sought for by the terrified people, as the most convenient form by which a certain well-known value could be represented and secreted for future use, and as consequence of the unnaturally stimulated demand rose to a price far above its intrinsic worth, and on the other hand the sale of every kind of import except opium was almost at a stand, the inevitible result was the unprecedentedly high rate of exchange on England."

T. R. Jernigan, former U. S. Consul in Shanghai, in a valuable volume on China trade, "China in Law and Commerce," commenting upon this situation says: "The effect of these disastrous conditions on the trade of China, already suffering from the severe fluctuations of exchange, was marked and commerce languished. An ineffectual effort was made to supply the deficit in the favorite medium of currency by the introduction of the new Mexican dollar, bearing as its device, on one side, the 'cap of liberty', and on the other an eagle strangling a serpent, and an attempt. was made to force the new coin into circulation as the equivalent of the old familiar 'pillars' (Carolus dollars). The attempt, after a firm refusal on the part of the banking guilds supported by the weight of public opinion, to accept the new coin, except at its intrinsic value, was wisely abandoned. Up to this time (1856) accounts by the foreign mercantile houses and the foreign banks had been kept in Carolus dollars. Foreseeing the danger to the commercial interests lying in the further use of a rapidly disappearing coin as the standard of account, the market rate for the Carolus dollar being now equivalent to the Shanghai tael, the banks and foreign merchants acting in concert determined to change the unit. Accordingly, on a prearranged day, every bank and every merchant doing business in Shanghai changed the headings of all accounts from dollars to taels, the figures remaining the same. No difficulty was experienced in the alteration, and the local tael has continued satisfactorily the standard of buying and selling ever since. The actual intrinsic value of the two was in the proportion of 72.43 to 100, the Carolus dollar having thus attained a premium of upward of twenty-seven percent.

"The convenience of having a coin of fixed value in purchasing and selling by retail caused the general introduction of the new Mexican dollar for ordinary local use, and the two—dollar and tael—have since found their place in the local market concurrently; in exchange quotations the dollar is quoted daily in terms of the tael, the clean unmarked coins (chopped is the local word used) being generally at a slight premium over their bullion value, and the two coins. old Spanish and New Mexican, are practically identical in intrinsic value."

Manchuria Has Much Trouble

In Manchuria, where sovereignty and commercial domination long have been the basis of wars and rumors of wars, the money system has been unsettled, complicated, and for foreigners in business there it is highly unsatisfactory most of the time. International strife and controversies have found expression in the monies of this district, and still do. Japanese have been severely indicted by Chinese and non-Japanese foreigners for discriminatory practices as regards currency.

At present the monies consist of Japanese bank notes, used principally for large financing, and various kinds of Chinese coin and currency, used in ordinary trade. This Chinese currency consists of provincial bank notes, which have little or no reserve behind them further than the local government's honor. Their value fluctuates greatly. The coin is much the same as coin found in other parts of China, except that the various coins have values differing from those of similar denomination coins in other places. Banks, and in some places commercial firms, print notes of face value running as low as ten cents. This brief discussion of the Chinese coins is included here only because of its relation to foreign monies.

To render the discussion authentic the writer prefers to quote from those who speak from experience. The non-Japanese foreign point of view will be presented by quoting from a paper prepared by A. T. Henckendorff, of the British-American Tobacco Company, and the Japanese point of view by quoting from a Bank of Chosen publication.

Mr. Henckendorff, who wrote at a time non-Japanese foreigners, were feeling the ill effects of discrimination favorable to the Japanese, said in part:

"In order to get a clear understanding of the situation it is necessary to review currency conditions in Manchuria for the few years previous to the war. Prior to and up to about 1912 the recognized trading currency throughout Manchuria, with the exception of the rouble in Harbin and district, was the small coin dollar represented by silver subsidiary coins minted in denominations of 10 and 20-cent pieces of an intrinsic value of about small coin $120 per Mex. $100 or about 5 per cent. below the value of subsidiary coins minted in other parts of China. In addition to small coin dollars there was the 'tiao,' a native currency to which I will make reference later. At that time there were comparatively few small coin dollar notes in evidence and those in circulation were issued by the Ta Ching Government Bank and the Manchurian Provincial Government Bank. These notes were cashed for silver whenever presented and consequently changed hands at par with silver coins and at times even commanded a slight premium.

Increase of Paper

"Since 1912 the issue of small coin dollar notes has steadily increased, and various other banks have established themselves in Manchuria, such as the Bank of China, Bank of Communications, Bank of Industrial Development, Hsing Yeh Bank (the latter owned by the Governor, Chang Tso-lin), which banks are to all intents and purposes provincial government banks, as they are under the direct control of the governor and co-operate in financing the provincial government. During the past six years it is estimated that these banks collectively have issued throughout Manchuria small coin dollar notes to the extent of over s.c. $150,000,000. The silver reserve held by these provincial government banks against their Manchurian note issue is negligible, the proceeds of the issue having been squandered in extravagant administration and in the maintaining of an army all out of proportion to the legitimate requirements of the provinces.

"Up to a year or so after the outbreak of the war this increased note issue was not felt to any extent by the public and in trading circles as the paper circulated freely and there was no particular occasion for holders of small coin dollar notes to demand silver from the banks, as the confidence of the public had not been disturbed and anyone requiring cash could with difficulty, change notes for silver in the open market. Importers were quite willing to accept this paper money for their merchandise, and farming classes accepted it for produce.

The Inevitable Result

"Conditions, however, changed rapidly during the latter part of 1916, chiefly on account of the heavy exports of silver from China abroad. Shanghai stocks of the white metal were depleted, and calls were made on interior supplies. As the price of silver advanced so the demand on China supplies increased and as China rates were considerably below silver parity, the profit on the business of exporting silver invited keen competition between foreign and Japanese banks in the matter of buying up for shipment all the silver they could lay their hands on. Large quantities of silver subsidiary coins were bought up in Manchuria and South China and shipped down to Shanghai to be melted down to bullion. In this manner the large silver and sycee reserves held by private native banks and merchants throughout Manchuria, were converted by gradual process into small coinlar dol notes.

"At first no difficulty was experienced in obtaining this silver, as merchant holders and the public generally readily parted with their silver for small coin dollar notes. However, as hard cash became scarcer a premium was demanded for silver, which steadily increased. Thus the gap between small coin dollar notes and the actual coin became wider. It must be understood that foreign and native merchants trading in Manchuria on a large scale are bound to accept small coin dollars in payment for their goods whether the currency be represented by silver coins or by paper, for with the exception of a limited quantity of large dollars, gold and silver yen, there is no other money available. When the small coin dollar note began to depreciate, European, American and Chinese merchants continued to accept it at its depreciated value, adjusting the difference by increasing the price on their merchandise. In view of the steady depreciation this *MODUS OPERANDI* was far from satisfactory to the importer who transacted most of his business on a credit basis, as there was no knowing what the value of this small coin dollar paper would be when outstanding credits matured. The facilities for covering exchange forward were limited and risky, as business practically resolved itself into an exchange gamble.

Japanese Agreement

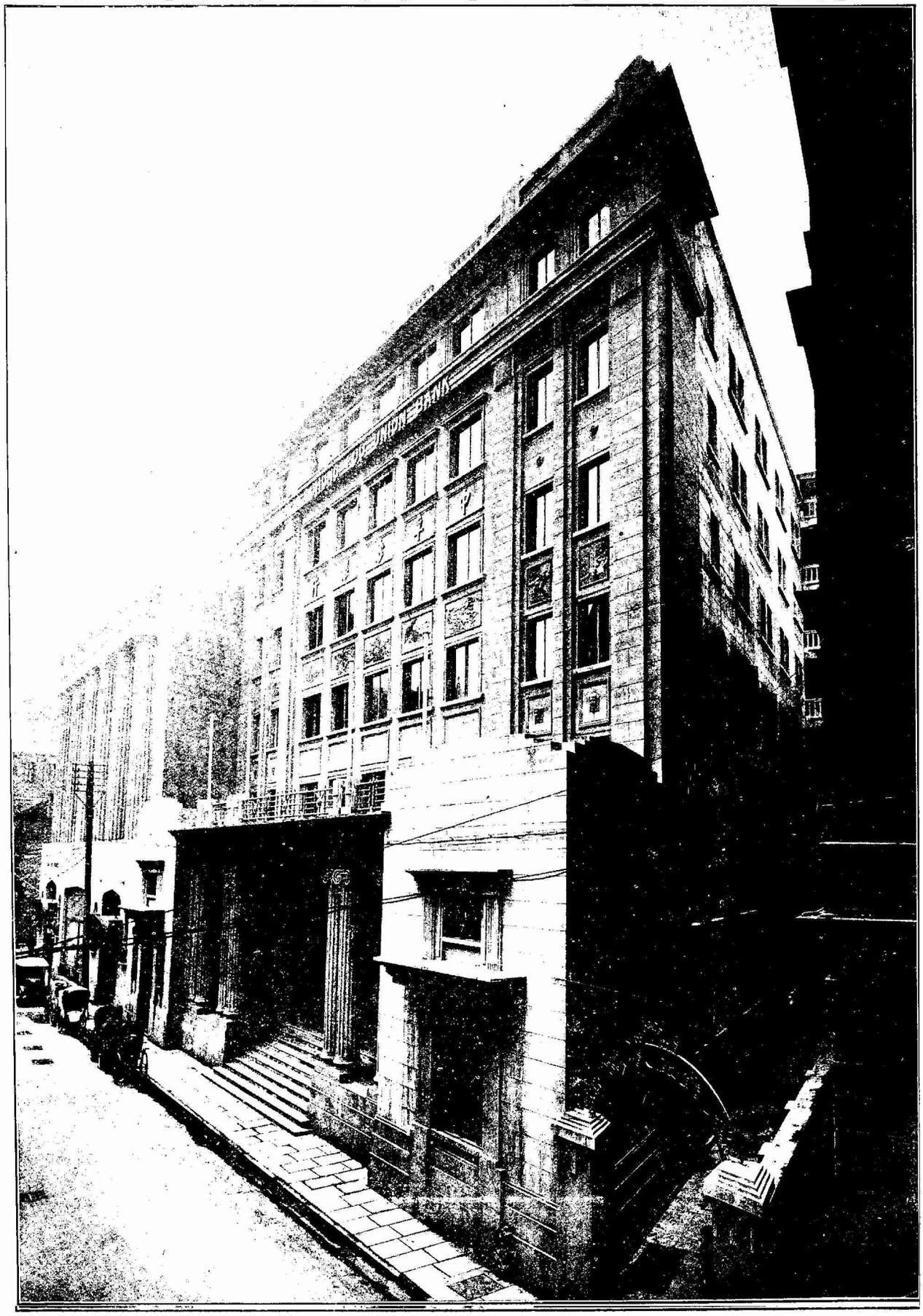
"These conditions, although they enhanced the difficulty of trading, when applied to all equally, involved no unfair competition. Unfortunately, however, Japanese merchants were not content to dispose of their small coin paper, received in trade, at the current discounted rate, which was then about 8 to 10 percent below the silver coin, and through their officials brought pressure to bear on the provincial authorities, which resulted in a note redemption agreement under which the provincial Banks issuing the notes, redeemed at par in silver from Japanese merchants only small coin paper to the value of $40,000 per day. This agreement was signed during 1916, since which time up to a few months ago when the arrangement was cancelled and substituted by another, the provincial banks have paid out to Japanese merchants over thirty million dollars in silver, practically all of which has also been shipped out of the provinces. During this period the discount rate on small coin notes advanced steadily from about 10 to 45 percent which represents the advantage to Japanese merchants over merchants of other nationalities. In order to meet the pressure of this Japanese note redemption, the banks concerned resorted to issuing more notes with which they purchased on the open market T. T. on Shanghai, gold and silver yen, large dollars of any currency that had a recognized value, in order to pay the Japanese. This action naturally resulted in an increased discount on their paper, until matters got to a point when they were unable to meet the Japanese demand any longer and by mutual agreement the note redemption was cancelled and substituted by an agreement whereby a group of Japanese banks loaned the provincial government G.Y.3,000,000 against certain coal property at Penhsihu. This amount of three million gold yen has not been paid over to the local government but has been deposited with the Bank of Chosen at 6 percent. interest per annum serving as a guarantee to Japanese merchants against loss through depreciation in currency.

An Impossible Position

"To sum up the whole situation, the trading currency of Manchuria today consists of unredeemable

(*Continued on page 53*)

CHUNG FOO UNION BANK



New Edifice of the Chung Foo Union Bank, 27 Jinkee Road, Shanghai

25-253

CHUNG FOO UNION BANK

A Cursory Review of Past and Future Prospects

A decade ago, modern banking in China was practically unknown. Business in foreign exchange was entirely conducted by a group of foreign banks, as old style banks only dealt in old style banking business. Since then modern banks have come into existence one after another, especially in a large commercial centre like Shanghai.

The Chung Foo Union Bank was founded during the first years of modern Chinese banking. It has always pursued a sound policy, in order to reduce the element of risk to a minimum and eschew anything that may tie up the bank funds for a long period. Thus it has gained the confidence of its customers and the public, and gradually extended its business as may be shown by the tables of comparative figures given below.

All the four branches of the Bank have purchased large areas of land for their new premises. At present the new building of the Shanghai Branch has been erected so that its increasing staff and growing volume of business may be accommodated and extensions in other directions, such as instituting a Trust Department, etc, may be made possible. The brief history given below of the institution shows how the Chung Foo Union Bank has steadily grown from its inception, in spite of the different financial crises, the Great War, the phenomenal fluctuations in exchange the internal unrest in China, and the violent speculation, which spelt disaster to many institutions.

The Chung Foo Union Bank was started in 1916 in Tientsin with a subscribed capital of $2,000,000. with $1,020,000. paid up. The promoters were the late Mr. Sun Tao-sun, the first Governor of the Bank of China, and other prominent financiers. He started several industrial enterprises in conjunction with friends of which the Lanchow Mining Co. Ltd., Lanchow, and the Chee Hsin Cement Co., Tientsin, have made rapid progress.

Other enterprises promoted by Mr. Sun and his friends are:

The Tung Hwei Industrial Development Co., Peking.

The Fou Foong Flour Mill Co., Shanghai.

The Tung Foong Flour Mill Co., Hsin Hsian, Honan

The Tung Yih Salt Mill Co., Chefoo.

The Tung Foo Godown Co., Tientsin.

The Woo Foong Godown Co., Shanghai.

The Yah Foo Real Estate Co., Shanghai.

The sound financial condition and good management of the foregoing companies have gained for themselves much confidence in the industrial and commercial circles in China, and their close connexion with the Chung Foo Union Bank is one of the factors that paye the way for the Bank's future progress.

In 1917 its branches in Peking, Shanghai and Hangchow were established. Arrangements were made with the Bank of China to represent the Bank in other principal cities of China. Owing to the expansion in business, it was deemed necessary in 1921 to increase the paid-up capital to $1,500,000. with the subscribed capital remaining the same. The Bank's Reserve Fund, which, on December 31, 1917 amounted to only $2,000. has gradually increased, and on December 31. 1921 stood at $180,000. The Bank paid a dividend of 7% with a bonus of 3% in 1918, 7% with a bonus of 5% in 1919, 7% with a bonus of 6% in 1920 and 8% with a bonus of 4% in 1921.

The above figures show the measure of success it has achieved in securing the complete support and confidence of the public during the six years of its existence. In 1918 a Foreign Exchange Department was established in its Shanghai Branch. It now has numerous agencies throughout America, and correspondents in London, Paris, Berlin, etc.

A scheme has been formulated and successfully worked out by the Chung Foo Union Bank to encourage the habit of thrift and saving in the people of the country. Each savings depositor is supplied with a "home savings bank," in which he or she may collect the savings, bit by bit, before they are brought for credit in a Savings Bank Account to earn an interest at five percent per annum. The remarkable growth in the business done by this department has more than justified the Bank's most optimistic expectations. More than 3,000 Savings Bank Accounts have been opened at its Shanghai Branch since 1918, and results in other Branches have proved equally successful.

Having briefly reviewed the past, it will not be out of place to predict what the future may bring toward the future development of the Bank.

While the outlook is not exactly clear, for we are still under the incubus of general trade depression and the internal unrest prevailing both in the North and the South we are optimistic enough to believe that from the lessons learnt in the past, our merchants will be wise enough not to enter into such heavy commitments as have paralysed all and ruined many in recent years. As the overstocked and costly merchandise is moved off, the market will be gradually be eased. Regarding the political outlook, there are signs that reason and common sense will some time prevail in public affairs.

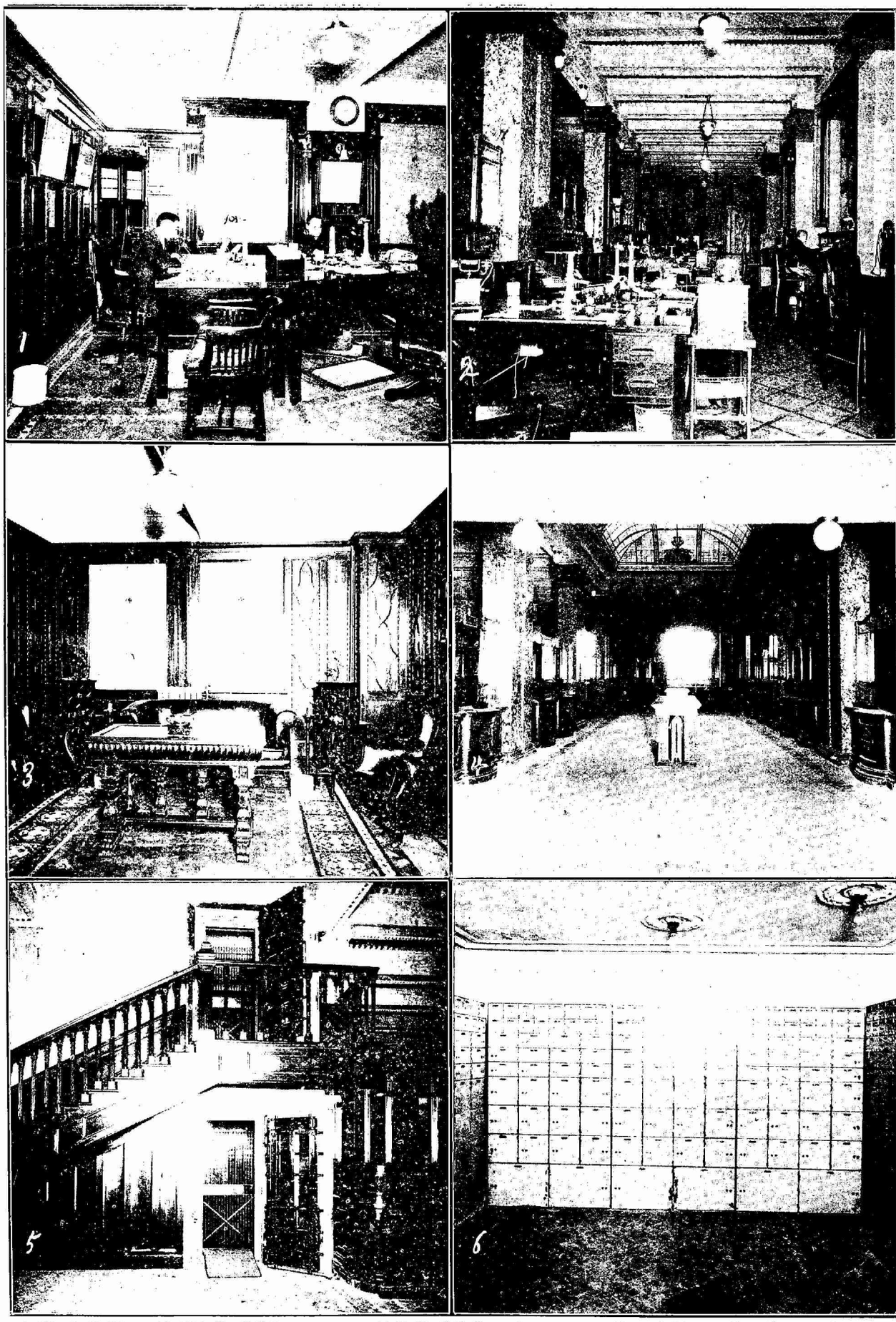
As in the past, our policy in the future, will be a careful one but this does not mean that we shall remain stationary. We will gradually ramify into other profitable branches of the business one of which, as already indicated will be a Trust Department. The trust business is practically a new branch of banking business in China. It has not been undertaken to any great extent by other banks as yet, and we shall have the field almost to ourselves at the beginning.

Again, there will be a Safe Deposit Department which will afford to our customers the advantage of our small iron safes in our specically built vault where, for a nominal fee, they can lodge their valuable papers and jewelery. This department will be found of great utility to those who have no safe depository of their own at their homes.

The Department of Foreign Exchange will be extended farther afield to allow our customers greater facilities for trade. We are represented in every large and important city in the world. Our Domestic Department has been tried and we have reason to believe, has not been found wanting as wherever we have no branches, we are represented by agencies or correspondents.

We can assure our customers that nothing will be left undone to make the Chung Foo Union Bank a truly representative and trustworthy Chinese banking institution. Our services will be as readily given in the future as they have been in the past and with the same attention, alacrity and promptness.

CHUNG FOO UNION BANK



1. Manager's office. At right, Mr. Y.R.Sun, manager; at left, Mr T.D. Zar, sub-manager 2 General office 3 Reception room for patrons
4 Central foyer of new bank 5. Entrance to safety deposit vault 6 Interior of safety deposit vault

CHUNG FOO UNION BANK

The New Building

The Chung Foo Building is erected at the west end of Jinkee Road near its junction with the Szechuen Road and is situated almost in the heart of the business district of the International Settlement at Shanghai. It is a six story reinforced concrete structure with brick curtain walls. The foundation of the building is the inverted arch system thereby assuring an even settlement should same occur.

The Basement, Ground and Mezzanine Floors are occupied by the Chung Foo Union Bank and the upperfloors are all let out for business offices. The entrance to the Bank and the lobby and corridor have been furnished with Verte Antique Marble Floor together with Jasper Marble columns.

Besides the Managers' offices which are near the entrance, there are the Reception Room, Waiting Room, a public room and private rooms for Safe Deposit customers. In the large general office will be housed the eight departments of the Bank, as follow: Foreign and Domestic Exchange, Loan and Bills, Deposits, Cashiers, Accounting, Correspondence, Savings and Trust.

Accomodation is provided on the Mezzanine Floor for customers by resting rooms which have a full view of the general office.

In the centre of the main office there is a large leaded glass dome giving harmonizing color to the interior of red marble columns and green and white marble flooring.

The approximate cost of land, building, heating, furniture and fixtures totals approximately Tls.550,000.

Statement of Assets and Liabilities of the CHUNG FOO UNION BANK, as of December 31, 1922

Liabilities

股本	Capital	2,000,000.00
公積金	Reserve	180,000.00
定期存款	Fixed Deposits	2,580,710.55
往來存款	Current Deposits	2,128,906.56
儲蓄存款	Savings Deposits	468,815.56
通知存款	Deposits at Call & Short Notice	229,588.11
暫時存款	Sundry Creditors	98,080.76
本票	Cashiers Orders	325,141.44
支付匯款	Bills Payable	7,419.58
未付股利	Unpaid Dividends	1,988.30
期付款項	Accounts Payable	99,859.12
領用中行兌換券	Note-issue Agency Account with Bank of China	800,000.00
公債準備整理	Difference of National Bond Deposits	80,000.00
本年純益	Net Profit for the Year	185,041.41
		9,185,551.39

Asscts

未繳股本	Unpaid Capital	500,000.00
定期抵押放款	Time Loans against Securities	1,290,502.19
定期放款	Time Loans	383,305 91
貼現放款	Bills Discounted	80,905.67
往來透支	Overdrafts on Current Accounts	1,279,714.45
往來抵押透支	Call Loans against Securities	310,443.07
應收款項	Accounts Receivable	1,095,317.82
應收押匯	Documentary Bills Purchased	57,961.94
代收各行購入票	Bills Purchased by Branches for Collection	4,120 88
暫記欠款	Sundry Debtors	140,265 19
有價證券	Investments at Cost	597,387.54
他行欠	Correspondents Accounts	206,190.37
過期放款	Loans Past Due	25,170 59
總分行往來整理	H.O. & Branches Adjusting Account	81,399.26
開辦費	Preliminary Expenses	4,274.14
房屋地皮	Bank Premises	365,442.88
器具裝修	Furniture & Fixtures	70,658.27
活存各銀行	Cash in Other Bank	1,537,519.51
現金	Cash on Hand	315,938.80
銀行公會公共準備金	Reserve Fund for Bankers Association	27,472.53
銀行公會基本金	Subscription to Bankers Association	11,560.41
兌換券準備金	Note-issue Agency Guarantee Fund to Bank of China	800,000.00
		9,185,551.39

Statement of Profit and Loss as of December 31, 1922

Loss

各項開支	General Expenses	230,116.03
手續費	Commission & Brokerage	18,064.67
攤提開辦費	Preliminary Expenses Written off	1,180.62
攤提房屋地皮	Depreciation on Bank Premises	5,807.17
攤提器具裝修	Depreciation on Furniture & Fixtures	25,625.13
攤提呆欵	Bad & Doubtful Debts Written off	25,726.52
攤提銀行公會基本金	Preliminary Expenses for Bankers Association Written off	1,193 50
提公積金	General Reserve Fund	20,000.00
提股利八厘及紅利一厘	Dividend & Bonus (9% P. A.)	135,000.00
提行員獎勵及創辦酬勞	Employee's Bonus & Founders'Remuneration	19,650.00
滙存下期	Balance Carried to Next Year Account	10,391.41
		492,755.05

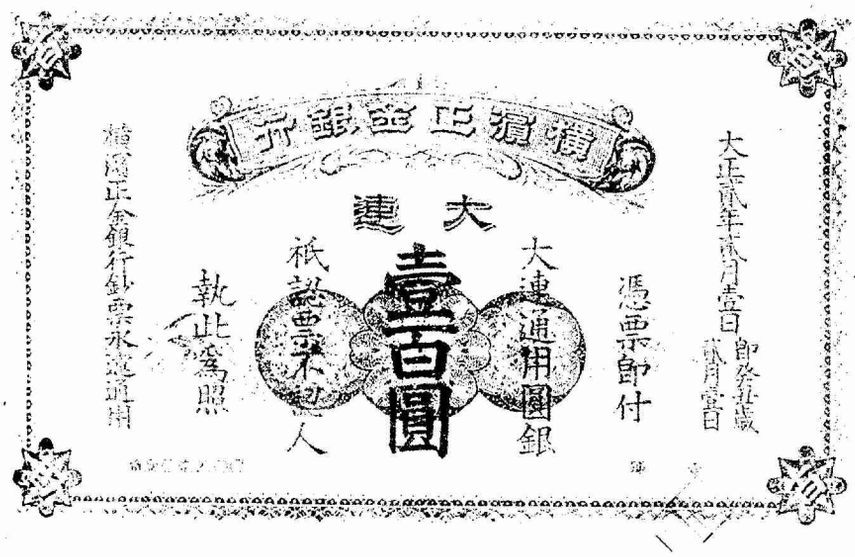
Profit

去年滙存	Balance Brought Forward Dec. 31st, 1921	888.19
利息及國外匯兌	Interest & Exchange	391.851.85
匯水	Remittance Fee	11,596.33
餘水	Gain or Loss by Exchange	16,246.19
雜損益	Sundry Income & Charges	8,999.28
有價證券損益	Gain or Loss on Investments	63,173.21
		492,755.05

Trading with Foreign Money in China

(*Continued from page 48*)

notes, the discount on which is now about 40 percent and is steadily increasing. The provincial government, responsible for this note issue, has for the past few years been mortgaging everything it can lay its hands on in order to raise money which has been squandered and the present revenue of the province is insufficient to pay current expenses, and interest on loans, much less provide a reserve against note issue. Consequently the provincial banks are daily issuing more paper to meet the demands of the local government. In order to protect themselves European and American merchants are obliged to accept this money for their goods at the current discounted valuation. On the other hand Japanese merchants in virtue of their arrangement with the local government can accept the same money at its face value, thus giving them an advantage of anything from 35 to 45 percent over their competitors. For example, an English or American article of merchandise, the marketing price of which is $100, will have to be sold in Manchuria at s.c. $175 in order to realize Mex. $100. A Japanese merchant on the other hand can sell a similar article for s.c. $120 and realize Mex. $100. This applies to cash business. On credit transactions the Japanese merchant has a still greater advantage, as he can give two or three months' credit with the knowledge that when it matures he will realize full value for his small coin dollar notes, whereas other merchants have no means of determining what their money will be worth when the credit matures.



The String of Cash

"I make reference above to the "Tiao currency." The history of this currency is a living illustration of what can easily happen to small coin dollar notes unless some prompt steps are taken to protect the Manchurian public. The tiao is a native money circulating in the two northern provinces of Kirin and Heilungkiang. It is nominally worth 1,000 cash and is represented by notes issued by the provincial government banks of the two provinces named. The original value of this paper was about 2½ tiao per dollar. In other words the banks issuing the notes realized about 40 cents small coin silver per tiao. About eighty million dollars worth of these tiao notes were issued during a period of from 15 to 20 years. The proceeds of these issues were squandered in the usual manner by the various governors and officials of the two provinces. For the past ten years the tiao has been unredeemable and has gradually depreciated in value until to-day it is worth about six cents which represents a loss of $65 million to the Manchurian public. The depreciation in this case was a slower process and consequently the loss to the public was fairly evenly distributed. In the case of small coin dollar notes the depreciation has been much more rapid and unless further note issues are stopped and an honest effort is made by the central and provincial governments to remedy the present involved state of Manchurian finances, and unless British and European merchants are secured against financial losses and accorded the same treatment as that enjoyed by Japanese merchants, their position in Manchuria will become practically untenable."

Conditions are fundamentally unchanged since the foregoing was written, except as regards preferential privileges in favor of the Japanese. That situation no longer exists.

In 1920 the Bank of Chosen of Seoul published a small volume entitled "Economic History of Chosen," in commemoration of the decennial of the bank. This publication, deals at some length with the constant lack of discord that has characterized the Chinese money system in general, and then localizes the discussion to Manchuria with the following general introductory paragraph and highly interesting table:

Japanese Point of View

"Such being the condition of currency in China as a whole, Manchuria is no exception to this general disorder. Every province, nay, every locality has some kind of currency peculiar to it, or attaches a different value to the same currency, and it may be said without exaggeration that there are no two cities having a currency exactly the same. The following monies are now in circulation in Manchuria.

Chinese currency	Coins	Cash (chthchien), Copper coin (tungyuan), Silver dollar (yangchien), Sycee (yinting),
	Notes	Government notes (kuanfich). Copper coin notes (tungyuanplao), Silver dollar notes (yangchienplao).
Foreign currency	Coins	Japanese Silver yen, Mexican dollar, Japanese and Russian subsidiary coins.
	Notes	Japanese Military notes, Bank of Japan notes, Bank of Chosen notes. Yokohama Specie Bank notes, Russian rouble notes."

The extensive historical and technical discussion of the various types and classes of Chinese money mentioned in the foregoing table is omitted because only the foreign money is under consideration here.

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Trading C

HEAD OFFICE:
FAR
8 and 9 Ni

Cable Address: "WAHCHANG"

Telephone: Central 5387-89

Branches and

Importers, Exporter

Pioneer in

EXPORTERS

Metals and Ores

Antimony Regulus
Needle Antimony Sulphite.
Needle Antimony Sulphite Powder.
White Antimony Oxide.
Tin, Chinese No. 1
Tungsten Ore
Manganese Ore
Bismuth
Flavorspar
Pig Iron
Arsenic

Hair, Bristles & Hairnets

Human and Horse Hair, Wool, Camel Hair, and Hairnets

Oils and Fats

China Wood Oil, Peanut Oil, Soya Bean Oil, Cotton Seed Oil, Pepper-mint Oil, Animal Tallow, Vegetable Oil.

Raw Cotton

Egg Products

Egg Albumen, Yolk and Powder.

Tea of all kinds

Silk goods and Raw Silks

Food Products

Rice, Peanuts, Peas and Beans, Sesame Seeds Hog-casings, etc.

Straw Hats and Braids

Miscellaneous

Hides and Skins, Rug and Carpets, Feathers, Camphor.

General Merchandise

SOLE AG

Woonsocket Machine & Press Co., Woonsocket, R. I., U.S.A. (Cotton Mill Machinery)
Fales & Jenks Machine Co., Pawtucket, R. I., U.S.A. (Cotton Mill Machinery)
Eastern and Burnham Machine Co., Pawtucket, R. I., U.S.A. (Cotton Mill Machinery)
Niles-Bement-Pond & Co., 111 Broadway, N.Y., U.S.A. (Machine Tools)
Pratt-Whitney Co., 111 Broadway, N.Y., U.S.A. (Machine Tools)
Vulcan Iron Works Co., 50 Church St., N.Y., U.S.A. (Locomotives)
Casey-Hedges Co., Chattanooga, Tenn., U.S.A. (Boilers)
Dow Chemical Co, Midland, U.S.A. (Indigo and Dyes)
Impex Gesellschaft for Import und Export, Mb. H., Berlin, Germany.
Cie Belge pour le Commerce d'Outremer, Belgium.

Chang
Corporation

Church Street New York City
STERN MAIN OFFICE:
Road, Shanghai, China
Agents all over the world

Code: Bentley's, Schofield's
Liber's Western Union,
A.B.C. 5th Edition and Private Codes

Engineers and Contractors
hina's Foreign Trade

IMPORTERS

Cotton Mill Machinery
Woolen and Worsted Machinery
Silk Throwing Machinery
Bleaching and Dyeing Machinery
Knitting Machinery
Mill Supplies
Shaftings, Pulleys, Belting, etc.
Machineries
Cigarette-Making Machinery, Paper Mill, Flour Mill Machinery, Sugar Mill Machinery, Match-Making Machinery, Oil Mill Machinery, etc.
Power Plant Equipments
Boilers, Engines, Turbo-generating Sets.

Locomotive & Railroad Equipment
Electrical Supplies
Iron and Steel Products
Metals and Metal Wares
Indigo
Chemicals and Dyestuffs
Piece Goods
Papers of all Kinds
Micellaneous
Paraffine Wax, Kerosene Oil, Leather and Leather Goods, etc.
General Merchandise

ENTS FOR

American Machine & Foundry Co., Brooklyn, N.Y., U.S.A. (Tobacco & Cigarette Machinery)
Smith Gas Enginering Co., Dayton, Ohio, U.S.A. (Gas Producer)
Dayton Dowd Co., Quincy, Ill., U.S.A. (Pumps)
Stafford Co., Readville, Mass., U.S.A. (Weaving Machinery)
T. B. Wood's Sons Co., Chambersburg, Pa., U.S.A. (Transmission Machinery)
Sperry Gyroscope Co., Brooklyn, N.J., U.S.A. (Searchlight and Gyro Compass Equipments)
Copper Clad Steel Co., Rankin, Penn, U.S.A. (Wire & Cables)
Dean Brothers Steam Pump Works, Indianapolis, Indiana, U.S.A. (Steam Pumps)
Detroit Stoker Co., Detroit, Mich., U.S.A. (Stokers for Boilers)
Providence Mill Supply Co., Providence, U.S.A. (Mill Supplies)
Scovill Manufacturing Co., N.Y., U.S.A. (Brass Products)

Dr. Koo's Statement on Austrian Loans

ON January 19, last, Dr. V. K. Wellington Koo, at the request of China's Cabinet, submitted a statement of the Foreign Office's action in the consolidation of the Austrian loans, regarding which the House of Representatives passed a resolution alleging the complicity of former acting premier Wang Chung-hui and ordering the government to conduct an inquiry.

Dr. Koo replied to the Cabinet, in part, as follows:

"On October 12th, 1922, the Foreign Office received a communication from the Ministry of Finance enclosing two sets of certified documents submitted by the Arnold Brothers and showing that all the ships originally ordered by the Chinese government had actually been under construction; and requesting the Foreign Office to examine and despatch them to Minister Tang at Rome to ascertain whether they were authentic. It also stated that as regards the number of ships under construction the Ministry of Finance had previously cabled Minister Tang to investigate but that the result of his investigation (actually made by Consul Chen at Trieste) and the statements made in the certified documents did not seem to agree; it therefore asked the Foreign Ministry to instruct Minster Tang by cable to investigate and report again. In reply to the Ministry's cable Mr. Tang asked the Ministry to cable Consul Chen directly to investigate and reply. This also was done.

Dr. Wellington Koo

"On October 28th the Foreign Ministry received another communication from the Ministry of Finance stating that the Arnold Brothers were prepared to vouchsafe for the authenticity and accuracy of the certified evidence and to assume all the responsibility of such a guarantee. In the event of such evidence being found unreliable the Arnold Brothers pledged themselves to reimburse the Chinese government with the whole amount of the deposit waived by China together with the accrued interest thereon. The said communication added that should the Minstry of Foreign Affairs consider it advisable in these circumstances to go ahead with the question, the Finance Ministry would draft a statement for joint presentation to a Cabinet meeting for its consideration. In the same communication were enclosed two memoranda, the essential point in which was that the proposed consolidation would materially reduce the amount of national indebtedness.

"On October 31st, 1922, the Foreign Office received another communication from the Finance Ministry transmitting two draft agreements, one extending the different Austrian Loans and the other cancelling certain purchasing orders, as well as one copy each of the Chinese and English texts of the Austrian Loan Extension Agreement of 1916.

"From the fact that several communications relating to the Austrian Loans came from the Ministry of Finance in close succession it was apparent the question of consolidation did not admit of delay. The Foreign Office replied to the three communications of the Finance Ministry under date of November 3rd briefly as follows:

"Inasmuch as the Arnold Brothers have assured your Ministry of the authenticity of the certified documents which they submitted and stated their willingness to assume full responsibility for any mistake discovered hereafter and inasmuch as the object of the revised agreement is to reduce China's burden of foreign debts and as an outstanding question of many years can thus also be put on the way to settlement, it appears to this Minstry that if your Minstry should decide to proceed with the question now, it would not be without some good effect in the effort of the government to maintain China's credit abroad.'

"It appears clear then that in making the allegation that the Foreign Office hurriedly signed the loan agreement in secrecy without waiting for a report from Minister Tang as to the result of his inquiry, the House was not in possession of all the facts of the case.

"As regards the assertion in the said Resolution that the law requires the responsible department to submit all agreements with foreign nationals to the Foreign Office for approval before they can be signed, implying that the terms of the Austrian Loan Agreement must have been previously approved by the Foreign Office, it only needs, to be pointed out that there is nothing in the law defining the functions and duties of the Foreign Ministry which gives it such power of approval or veto. It is the Ministry in charge which holds itself responsible for the terms of any special agreement. This has been and still is the established rule, applicable not particularly to the Austrian Loan Agreement alone, but generally to all agreements with foreign nationals. The assertion alluded to is therefore not borne out in fact.

China's Copper Currency and Its Debasement

BY ARCHIBALD ROSE

THE various currency questions of China have been so constantly before your notice that it is unnecessary to burden our discussion with historical details. It is enough for us to remember that China has been a copper-using country for many centuries: that the country is now going through a transition period in which silver is competing with copper as the currency of certain big transactions, such as purchases of rice: and that copper coins have no legal or practical status as *token coins*. The silver dollar is slowly acquiring a certain standing and recognition apart from its intrinsic value. The old-established copper coin on the other hand is increasingly distrusted. It is little more than a commodity, its price rising and falling in response to supply and demand. The numerous issues now in circulation are lacking in uniformity, debased in quality, and a constant temptation to the speculator.

We need not look to the historian or the economist to learn the result of such conditions of the currency on the people. We can watch the unhappy effects of debasement and depreciation at our own doors. Copper is still the sole currency of the hundreds of millions of Chinese who are our producers and our customers. I can speak from personal experience of the recent losses and sufferings inflicted on the masses of the people by this one factor over large areas of China.

I have collected information as to the coins now current in about 200 districts all over China. And, from among the specimens sent to me, 50 different coins have been analyzed by the Shanghai Chemical Laboratory. The Currency Law of 1914 has not yet been made effective, but we may take its provisions as a useful basis for our comparisons. It provides that the weight of the one-cent coin shall be 18 candareens, and the copper content of the coin 95 percent. Among the 50 coins assayed there are great divergencies. In those bearing the same emblems and inscriptions there are differences in weight of as much as 26 percent, and differences in copper content of as much as 27 percent. The dates and places of issue of all the coins cannot be determined with accuracy. But those issued before 1911 are all pretty well up to the currency law standard. Those minted during the last few years are inferior in weight and fineness: few of them come up to the weight standard and, as regards copper content they average only about 90 percent. The debasement of the two-cent coins is even more marked than in the one-cent coins. And amongst all the coins of the same ostensible value there is a great lack of uniformity.

I will not weary you with lists of figures, but the results of these assays will be placed at the disposal of the chamber for purposes of reference. The recent *debasement* of the copper coinage is certainly established by the evidence.

I will now turn to the question of *depreciation*. The first copper issues, as distinct from the old "cash," were minted at Canton in the year 1900, and other mints soon followed suit. For the first few years the coins were actually circulating above par, and stood at 85 or 90 to the dollar. By 1912 their exchange value had fallen to 130 to the dollar. In the early years of the war large quantities of coppers were melted down and smuggled out of the country. This caused a real shortage of currency on the markets, and an ensuing flood of paper notes. The profits of minting, however, were quickly realized with the fall in the price of copper. In 1919 and 1920 the market was flooded with new copper coins, some of them made in China others alleged to have been secretly imported, but most of them of inferior weight and quality.

During the last few years the exchange value of the coppers has fallen rapidly. Comparing the rates in 18 big towns in different parts of the country I find that the average exchange to the dollar was:

In December 1918	133
In November 1921	155
In November 1922	186
In February 1923	186

The last two years in fact have shown a serious depreciation in the currency of the people.

The depreciation of the coins has been accentuated by large issues of *copper notes*. These notes have been issued not only by responsible authorities, but private banks, by pawn-shops, and indeed by anyone with sufficient strength or local prestige to induce their acceptance, different conditions occurring in different provinces. Many issues are current only in one single town. No less than 169 different kinds of notes are in circulation in one small area in the province of Chihli. The interesting thing about these copper notes is their general tendency to circulate and to exchange with dollars at the same rate as the copper coins in the same area, and thus to help the depreciation of the coins. They do not depreciate in relation to the coins in the same way as un-backed silver notes depreciate in relation to silver coins. I can only attribute this to the fact that they are generally of small value, usually only 10 coppers, and, so long as they are issued by respectable shops, people do not enquire too closely as to their backing. There are exceptions to this tendency: in Hankow, for instance, copper notes are at a discount of 50 percent.

Let me quote the two extreme cases of copper currency standards at the present moment. The greatest irregularity and depreciation has been shown at Kalgan, with a present exchange of 228 coppers to the dollar. The greatest regularity and the least depreciation is shown at Ningpo, where exchange now stands at 170 coppers to the dollar. At Kalgan the currency requirements are reported to be controlled by the local military authorities, who have withdrawn practically all silver from the market and replaced it with copper notes. These notes are believed to have little backing. They are issued as pay to the troops, and the soldiers are left to induce the shopkeepers to accept them in exchange for commodities. In such circumstances heavy depreciation is not surprising. In Ningpo on the other hand a strong mercantile community, supported by effective govern-

(*Continued on page 95*)

The Financial Reconstruction of China

(Continued from Page 19)

Working on those data, the probable net future revenue of the Customs may be calculated as follows :

For the year 1923 :	
Net revenue of 1922	$ 77,000,000
Increase from the full 5 % during part only of the year. . . .	8,000,000
Increase from development of trade	3,000,000
Total	$ 88,000,000
For the year 1924 :	
Net revenue of 1923	$ 88,000,000
Increase from the full 5 % during the whole of the year . . .	2,000,000
Increase from new 7 ½ and 10 % tariff	28,000,000
Increase from development of trade	3,000,000
Total	$121,000,000
For the year 1925 :	
Net revenue of 1924	$121,000,000
Increase from development of trade	3,000,000
Total	$124,000,000
For the year 1926 :	
Net revenue of 1925	$124,000,000
Increase from development of trade	3,000,000
Total	$127,000,000
For the year 1927 :	
Net revenue 1926	$127,000,000
Increase from development of trade	3,000,000
Total	$130,000,000
For the year 1928 :	
Net revenue of 1927	$130,000,000
Increase from development of trade	2,000,000
Total	$132,000,000
and so on till the net revenue reaches .	$150,000,000

But the net revenue of the Customs is already earmarked for the service of the two foreign loans of 1896 and 1898, of the Boxer Indemnities, of the Reorganization Loan of 1913 and of various domestic loans

The following table shows what is required for meeting these obligations.

The figures of the foreign loans have been compiled from the official tables of interest and amortization attached to the original loan contracts.

The Boxer Indemnity is calculated at 50 % of its outstanding amount, that is to say less the German, Austrian and Russian shares, with the further assumption that the deferred annuities of the years 1917-1922 are postponed to 1941-1945.

Sterling is calculated at 10 dollars to the pound.

The domestic loans are tabulated in accordance with the official figures published by the ministry of finance

Table II gives the total of the charges on the Customs Revenue, in dollars, the charges for foreign obligations in gold being converted into silver at the rate of ten dollars to the pound.

Table I

CHARGES ON CUSTOMS REVENUE

Years	Russo-French loan 1895	Anglo-German loan 1886	Anglo-German loan 1897	Boxer Indemnity 1901	Reorganization Loan 1913	Third Year Loan 1914	Fourth Year Loan 1915	Fifth Year Loan 1916	Seventh Year Loan 1918	Consolidated Loan 1921	Eleventh Year Loan 1922
	$	$	$	$	$	$	$	$	$	$	$
1923	8.366.700	9.521.000	8 277.000	18.370.000	13.500.000	3.500.000	5.700.000	1.125.455	2.700.000	20.435.284	2.760.000
1924	8.366.700	9.513 000	8 274.000	18.370.000	15.000.000	6 000 000	.. .. ..	1.125.455	2.700.000	19.627.657	2 600.000
1925	8.366.700	9.505 000	8.270.000	18.370.000	15.000.000	3.000.000	.. .. ..	1.125.455	2.700.000	19 861.805	2 400.000
1926	8.366 700	9 497 000	8.267.000	18.370.000	15.000.000	.. .. ..	.. .. ..	4.251.720	2 700.000	21.644.251	2 280.000
1927	8 366.700	9.489.000	8.263.000	18.370.000	15.000.000	.. .. ..	.. .. ..	7.096.621	2.700.000	12.728.154	2.120.000
1928	8.366.700	9.480.000	8.259.000	18.370.000	15.000.000	.. .. ..	.. .. ..	6.720.469	7.132.500	12.095 824	.. .. ..
1929	8 356.700	9.471.000	8 255.000	18.370 000	15.000.000	.. .. ..	.. .. ..	3.320 052	6.862.500	11.463.494	.. .. ..
1930	8.366.700	9.460.000	8.250.000	18.370.000	15.000.000	.. .. ..	.. .. ..	.. .. ..	6 592.500	10.831.164	.. .. ..
1931	8.366.700	9.450 000	8.246.000	13.370.000	15.000.000	.. .. ..	.. .. ..	.. .. ..	6.322.500	.. .. ..	.. .. ..
1932	.. .. ..	9.440.000	8.241 000	26.500.000	15.000.000	.. .. ..	.. .. ..	.. .. ..	6.052.500	.. .. ..	.. .. ..
1933	.. .. ..	.. .. ..	8 236.000	26.500.000	15.000.000	.. .. ..	.. .. ..	.. .. ..	5.782.500	.. .. ..	.. .. ..
1934	.. .. ..	.. .. ..	8.231.000	26.500 000	15.000.000	.. .. ..	.. .. ..	.. .. ..	5.512.500	.. .. ..	.. .. ..
1935	.. .. ..	.. .. ..	8.225.000	26.500.000	15.000.000	.. .. ..	.. .. ..	.. .. ..	5.242.500	.. .. .	.. .. ..
1936	.. .. ..	.. .. ..	8 220 000	26.500.000	15.000.000	.. .. ..	.. .. ..	.. .. ..	4.972.500	.. .. ..	.. .. ..
1937	.. .. ..	.. .. ..	8.214 000	26.500.000	15.000.000	.. .. ..	.. .. ..	.. .. ..	4.702.500	.. .. ..	.. .. ..
1938	.. .. ..	.. .. ..	8.208.000	26.500.000	15.000.000	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..
1939	.. .. ..	.. .. ..	8.201.000	26.500 000	15.000.000	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..
1940	.. .. ..	.. .. ..	8.194 000	26.500.000	15.000.000	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..
1941	.. .. ..	.. .. ..	8.187.000	18.300.000	15.000.000	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..
1942	.. .. ..	.. .. ..	8.180 000	18.300.000	15.000.000	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..
1943	.. .. ..	.. .. ..	8.172.000	18.300.000	15.000.000	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..
1944	.. .. ..	.. .. ..	.. .. ..	18.300.000	15.000.000	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..
1945	.. .. ..	.. .. ..	.. .. ..	18.300 000	15.000.000	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..
1946	.. .. ..	.. .. ..	.. .. ..	.. .. ..	15.000.000	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..
1947	.. .. ..	.. .. ..	.. .. ..	.. .. ..	15.000.000	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..
1948	.. .. ..	.. .. ..	.. .. ..	.. .. ..	15.000.000	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..
1949 to 1960	.. .. ..	.. .. ..	.. .. ..	.. .. ..	15.000.000	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..	.. .. ..

Comparing now the figures in Table II* with the figures of the probable future revenue of the customs, as we have worked them out. Table III** shows what net balance may be available for consolidation purposes.

It appears from Table III that a 6,250,000 dollars deficit is to be foreseen for the year 1923, but that there will be a surplus balance of 30 millions dollars in 1924, regularly increasing each year till it reaches 72 million dollars in 1931. The increase in the balance is due to a large extent to the total of the existing charges dropping from 94,250,000 dollars in 1923, to 66 millions in 1931 and 55 millions in 1933.

It seems therefore that a consolidation scheme may be based on the customs revenue, provided:

(a) that means be devised to find some additional funds during the first years, and

(b) that interest only on the consolidation bonds be paid up to 1931, redemption beginning in 1932.

The available surpluses from 1932 onwards are sufficient to secure amortization in a short period of time.

A Consolidation Scheme.

A mere glance at the tables of the Chinese foreign and domestic indebtedness, as published in October 1922 by the ministry of finance, shows that the indebtedness consists of a variety of debts, few loans totalling more than ten million dollars, and most of them being loans of less than one million dollars. The currencies are different, some of the debts being in silver dollars, some in sterling, some in yens, some in francs, etc. The rates of interest and the dates or periods of repayment also widely differ. It seems impossible to consolidate such a mass of heterogeneous obligations with bonds in one single currency, bearing all the same rate of interest, and redeemable under the same conditions.

With regard to the currency, there can be no question of converting the domestic debts in dollars into bonds in a foreign currency. On the other hand, if creditors of debts in foreign currencies are offered bonds in silver dollars, they will point out that the conversion of sterling or gold dollars into Chinese currency involves a risk, and that they will not accept the risk unless conversion is made at a higher rate than the then prevailing exchange quotation. A creditor in sterling for instance may request that his debt be converted into dollars at the rate of eleven to the pound when the market rate is nine only, and so on. The best system, to avoid discussions and losses for the government, would be to issue as many sets of new bonds as there are different kinds of currencies employed in the loan agreements, say one set in Chinese dollars, one set in sterling, one set in francs, etc., and to offer dollar bonds to the dollar creditors, silver bonds to the silver creditors, franc bonds to the franc creditors, etc.

The next point is interest. Most of the unsecured debts bear interest at the rate of 8 % or over. In substitution for them, well secured bonds guaranteed on the revenue of the customs ought to be accepted at lower rates, coupled with a reasonable redemption premium, for instance 7 % bonds issued at 87.50 and redeemable at 100. But several of the unsecured debts have been contracted at better terms for China, e.g. the Loans of the Chicago Bank and of the Pacific Development Co. at 6 %, the French Industrial Loan of 1913 at 5 %, the War Participation Loan at 7 %. For the 7 % loans, 7 % bonds ought to be offered at par. As to the 6 % and 5 % loans, the original terms ought to be preserved or new bonds issued at 6 % and 5 %.

So much the same for the periods of redemption. The 1913 French Industrial Loan is redeemable in 34 years beginning from 1930. There is no reason

(*Continued on page 92*)

*Table II

Total Charges on Customs Revenue

Years	Foreign Obligations	Internal Loans	Total
	$	$	$
1923	58,034,700	36,220,739	94,255,439
1924	59,523,700	32,053,112	91,576,812
1925	59,511,700	29,127,260	88,638,960
1926	59,500,700	30,875,971	90,376,671
1927	59,488,700	24,644,775	84,133,475
1928	59,473,700	25 948,793	85,422,493
1929	59,461,700	21,646 046	81,107,746
1930	59,446,700	17,423,664	76,870,364
1931	59,366 000	6 322,500	65,688,500
1932	59,201,000	6,052,000	65,253,500
1933	49,756,000	5,782,500	55.538,500
1934	49,751,000	5,512,500	55,263,500
1935	49,745,000	5,242,500	54.987.500
1936	49,640,000	4,972,500	54,612,400
1937	49,634,000	4,702,500	54,336,500
1938	49,628,000	.. .. ..	49,628,000
1939	49,621.000	.. .. ..	49,621,000
1940	49,614.000	.. .. ..	49,614,000
1941	41,487,000	.. .. ..	41,487,000
1942	41 480.000	.. .. ..	41,480,000
1943	41,472.000	.. .. ..	41,472,000
1944	33,300,000	.. .. ..	33,300,000
1945	33.300,000	.. .. ..	33,300.000
1946	15,000,000	.. .. ..	15 000,000
1947 to 1960	15 000.000	.. .. ..	15.000.000
1961	nil	.. .. ..	nil
1962	nil		nil

**Table III

Balance Available for Consolidation

(In round figures)

Years	Net Revenue	Charges	Deficit	Surplus
	$	$	$	$
1923	88.000.000	94.250.000	6.250.000	.. .. ..
1924	121.000.000	91.500.000	.. .. ..	29.500.000
1925	124.000.000	88.700.000	.. .. ..	35.300.000
1926	127.000.000	90.500.000	.. .. ..	36.500.000
1927	130.000 000	84.150.000	.. .. ..	45.850.000
1928	132 000.000	85.500.000	.. .. ..	46.500.000
1929	134.000.000	81.100.000	.. .. ..	52.900.000
1930	136.000.000	77.000.000	.. .. ..	59.000.000
1931	138.000 000	66.000.000	.. .. ..	72.000.000
1932	140.000.000	65.000.000	.. .. ..	75.000.000
1933	142.000.000	55.500.000	.. .. ..	86.500.000
1934	144.000 000	55.500.000	.. .. ..	88.500.000
1935	146.000.000	55.000.000	.. .. ..	91.000.000
1936	148.000.000	55.000.000	.. .. ..	93.000.000
1937	150.000.000	54.500.000	.. .. ..	95.500.000
1938	150.000.000	50.000 000	.. .. ..	100.000.000
1939	150 000.000	50.000.000	.. .. ..	100.000.000
1940	150.000.000	50.000.000	.. .. ..	100.000.000
1941	150.000.000	41.500.000	.. .. ..	108.500.000
1942	150 000 000	41.500.000	.. .. ..	108.500.000
1943	150.000.000	41.500.000	.. .. ..	108.500.000
1944	150.000.000	33.500 000	.. .. ..	116.500.000
1945	150 000.000	33.500.000	.. .. ..	116.500.000
1946	150.000.000	15.000.000	.. .. ..	135.000.000
1947 to 1960	150.000.000	15.000.000	.. .. ..	135.000.000
1961	150.000.000	nil	.. .. ..	150.000.000

South China's Financial Progress

(*Continued from page 30*)

product alone involve some 55,000 bales for export, prices ranging from $830 to $1,850 a bale. In Hongkong deposits in native banks are in both Hongkong and Canton currency. Although Canton currency is not legal tender in this British port, the native banks have their own use for it Some of the surplus of these native banks goes to foreign banks.

All the important foreign banks of the Far East have either their headoffices or strong branches in Hongkong with branches or agencies in Canton. So far neither Yunnan nor Kwangsi has developed modern banks conducted by Chinese. Native banks still hold sway there. Of the foreign banks and banking agencies in South China, the British institutions dominate, the French, the Japanese and the Americans following.

Since the declaration of independence of Canton from Peking in 1917, some $10,000,000, representing salt tax and other national tax proceeds has been kept locally instead of being remitted to the Central Government through foreign banks. In spite of this additional income for the Canton government, internecine wars and maladministration have necessitated a domestic loan of $28,000,000. The normal provincial income of Kwangtung should be $37,000,000 without appropriating the national tax proceeds.

The construction of the Kwangtung section of the Canton-Hankow Railroad, has begun to produce the expected result and much freight has moved over that line between Kwangtung ports and inland towns of Hunan and Kiangsi. An early extension of the line to Changsha will further the prosperity of Canton and Hongkong. The three railroads having terminals in Canton, although they all are very short, do good business, their annual earnings totaling more than $7,000,000.

Big Things in the Future

From now on the import and export trade of Canton and two nearby ports in the same province should run from $250,000,000 up annually, and modern Chinese banks have all the room to expand they could want. Since the inauguration of the city improvement and reform policy in Canton, real estate business has become a factor in finances. The real need for land and buildings, however, is not so great as the speculators have made it appear. Since 1920 rent has increased 10 percent annually, along the Bund, some as high as $6,000 a *cheng* (ten Chinese square feet). To raise capital for land investment, these speculators organize savings and trust companies to get money from the public. Savings accounts systems with premium and prize attached are used. Some persons well informed in financial matters insist that many of these newly organized trust companies and savings banks and societies deserve immediate investigation as to their standing, methods, and purposes.

The 20-cent subsidiary coin still is the standard in Canton's local trade, while the Haikwan tael is the basis in the payment of customs duty and Hongkong currency is used in trading with foreign hongs. Except the Japanese banks, foreign banks do not accept local Canton coins for deposit accounts. In recent years coins with a total face value of $73,000,000 have been issued by the Kwangtung Government Bank. For this coinage nearly 50,000,000 ounces of imported silver were used. The Canton 20-cent pieces are 700 fine. The coins turned out within the last few months were about 2 percent lighter in weight, and dealing in regular and light weight coins has formed another item of local native bank business.

One of the hopeful signs of the banking business of South China is the increase in the number of foreign educated Chinese young men. Practically every modern Chinese bank in Hongkong and Canton is conducted by persons who have been students or merchants abroad. The sons of the wealthy Cantonese families are no longer looking toward the government service for fame and usefulness. Many of them have gone into business. In Hongkong there are more than 50 importing and exporting firms among the Chinese who employ modern systems of trade in dealing directly with merchants and manufacturers abroad, and the larger ones are managed by returned students with financial support and personal influence from their elders. In banking and other lines of business, this personal influence counts more than anything else, and the more influential of these modern concerns are financed and backed by the older merchants who succeeded in the good old days.

Carolus dollar which entered this country through the south

Lasting Peace Especially Needed

The Southern Chinese have sufficient capital to undertake all forms of local industries, provided peace and order make possible a normal development. In one foreign bank alone, it is reported that from $30,000,000 to $40,000,000 can be made available on short notice for profitable investments.

Internecine warfare, piracy, and maladministration form the only obstacles to South China's prosperity. Suspicion among the masses and lack of communication facilities of the modern type are now no longer the question. Only lack of protection and frequent political disturbance, not want of capital and labor, are responsible for the slow progress. The people, beginning with the citizens of the city of Canton, have inaugurated a good roads movement, and the large financial institutions, the native banks, will be only too glad to utilize the resources at their command, not mentioning the readiness of foreign bankers, to assist in all worthy enterprizes. With the proposed development of Whampoa as a deep-sea harbor and the improvement of the port of Canton and the Pearl River system and the extension of the Canton-Hankow Railroad and the opening of the coal mines in the Canton Delta districts South China has a bright outlook. It is the hope of the people here that their worst enemies, bad officials and heartless militarists, will soon be removed, and the land left free for the development of local industries and international trade.

Reverse side of same coin as shown above

China and the Silver Situation

(*Continued from page 29*)

world over is largely controlled by American capital; notwithstanding this, it has been customary for the smelters to sell their silver in London. London in pre-war days was the world's financial centre and British capital has always predominated in the principal silver consuming countries. Orders for the purchase of silver were therefore naturally sent to the London market and the producers, of course, sold their silver where there was a market for it. However, during the war the demand for silver was so great from all parts of the world that the smelters did not need to send their silver to London but the buyers had to come to America to get it, hence New York's position during the war as the world's great silver market. However, this position is again occupied by London, although New York is still a very important silver market, much more so than before the war. London, however, is today the broader market and silver can always be bought or sold there at a price, whereas the New York market seems to be more one-sided. Orders sent there are not always possible of execution, it being no unusual occurrence to find that there are no buyers or no sellers as the case may be, in the New York market, an unheard of occurrence in the London market. While silver in large quantities is often dealt in on the New York or San Francisco markets, the price is determined very largely by the London price.

Tendency Toward American Market

There are many reasons why New York should be the world's chief silver market. Practically all the world's silver is produced in North and South America and is controlled largely by American capital. America to day is financing the world; her interests and investments in foreign countries are continually increasing but until there is an open silver market in New York where silver can always be bought or sold, there would seem little likelihood of New York's challenging London's supremacy in the world's silver market. However, China particularly is turning more to the American markets and during the latter part of last year India bought quite heavily in the New York market. Heretofore, in normal times, India has bought almost exclusively in the London market. As we have mentioned before, in 1922 China bought 50,000,000 ounces of silver in America as against 22,000,000 ounces in the London market. India bought 22,000,000 ounces in America as against 46,000,000 ounces in London. The tendency probably will be in the future for China to turn more to the American markets. The transit time between America and China is shorter than between London and China, resulting in a considerable saving of interest; further, the demands for silver in a country like China are often sudden and sharp, placing a high premium on the early arrival of the metal in China.

Not only is the daily price of silver a matter of vital importance to those doing business with or in China and other silver-using countries but there is also considerable anxiety and speculation as to what the trend of the silver market is likely to be in the future.

A fairly accurate estimate can be made as to what the silver production of the world will probably be the next few years, but the demand for the metal is largely an unknown quantity. As we have mentioned earlier in this article, the amount of silver actually mined is almost certain to increase materially during the next few years. This will be accounted for to a great extent by the increased Mexican production and also to the

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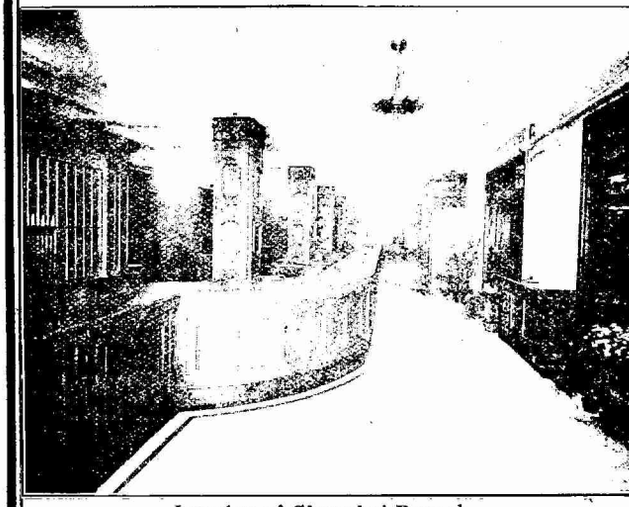

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increased world demand for copper, lead and zinc. Most of the copper, lead and zinc mines produce silver as a by-product and will continue to produce it regardless almost of the price of the white metal, whereas should the price of silver materially decline many pure silver mines could not operate at a profit and would close down. This increased production will, no doubt, be offset to some extent by the fact that the amount of silver realized from demonetization and debasement of subsidiary coinage is likely to show a considerable falling off during the next few years. We have seen that the demand for silver for use in the arts is increasing and for coinage purposes diminishing. Those two factors will probably pretty well balance each other and in any event neither of them taken alone is likely to be of sufficient importance to materially affect silver prices. This means, therefore, that the burden of supporting the price of silver in the years to come will continue to fall on India and China and as to what their requirements are likely to be one can only hazard what at best must be a very wide approximation. The demand from these two countries for the precious metals, both gold and silver, has been so insistent for generations that India particularly, and China also to some extent, have been called the "sinks" of the world and shipping silver and gold to these countries like pouring water into sand; it sinks from sight and never again comes to light.

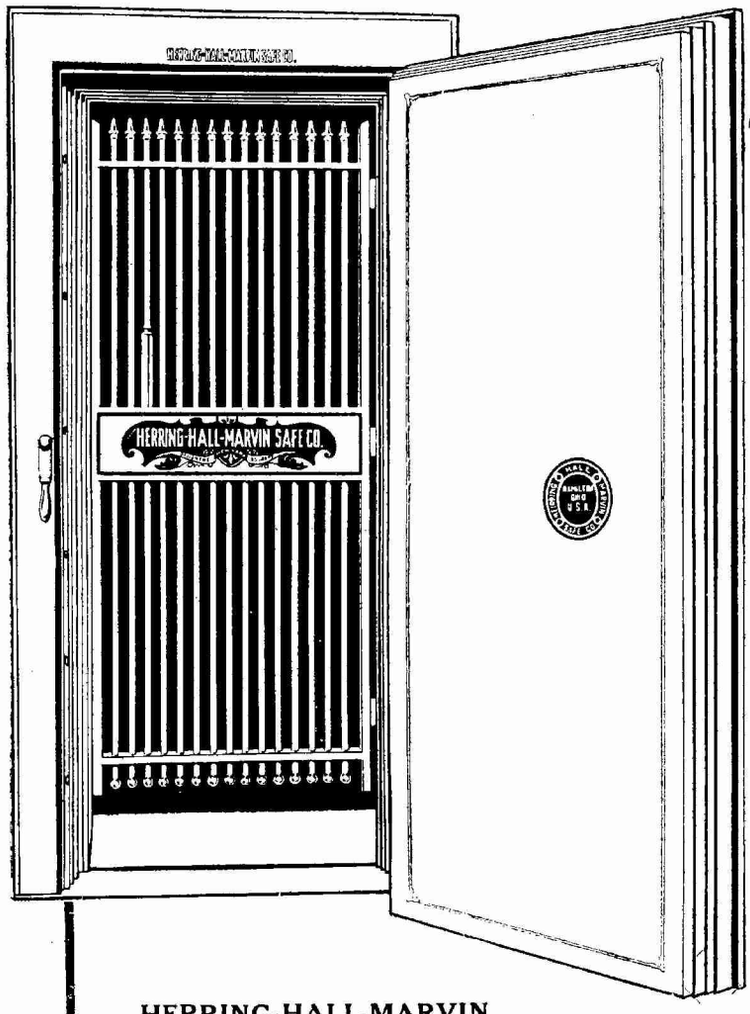
Many Factors Influence Market

It is estimated that from 1851 to 1922 India alone has absorbed one-eighth of the total world gold production and her demand for the metal is far from satisfied. No doubt hoarding of the precious metals is carried on extensively in both India and China. In a country where there are no safety-deposit vaults, where civil-war, famines, floods and plagues are no unusual occurrence, where the natives know little and care less about so-called "gilt edged securities," purchase of the precious metals is the favorite form of investment. In India particularly the demand for silver for use as ornaments is large, particularly at the marriage season in May when every bride is the recipient of gold and silver ornaments bestowed upon her by her father at her marriage. However, the intensity of the demand of India and China for silver depends almost entirely on their crops. When the balance of trade is in favor of those countries their excess exports are paid for by importations of silver, and to a lesser extent of gold. It is for this reason that silver operations keep a watchful eye on the course of the Indian monsoon and that the news that the monsoon has "broken" is flashed around the anxiously awaiting silver markets of the world. A good monsoon means good crops in India, which means an increased demand for silver. The same holds good of China. Good rains with favorable weather for the crops in the Orient are bull factors in the silver market, floods and droughts bear factors. In short, the great overwhelming factor in the silver market is the trade status of the Orient of which India and China are the two most important countries. When the balance of trade is in favor of these countries there will be a strong demand for silver and the price may be expected to be well maintained almost regardless of production. It is a peculiar phenomenon in the silver market that the price of the metal has never varied in inverse ratio with the supply, but as consumption has increased so has the price and vice versa—a low price has always meant low consumption, a high price, a high consumption. Some consideration must now be paid to the famous Pittman Act and its effect on the price of silver.

Under this Act the United States government sold to the British government 208,000,000 ounces of silver for shipment to India, which at that time (1918) was sadly in need of further backing for its Rupee note issue. This silver was taken from the U. S. treasury and the government agreed to replace it by purchasing an equivalent amount from American producers at $1.—an ounce. During 1919 and the early part of 1920 the world price of silver was well above a dollar an ounce and American producers did not therefore sell to the United States treasury. However in May 1920 the world price declined below one dollar and the treasury began purchasing from domestic producers and has continued doing so ever since. By the end of 1922 over 150,000,000 ounces had been purchased and it was estimated that the purchase of the balance of 60,000,000 would be completed by November 1923. This means that after November of this year, the entire U. S. production of between fifty and sixty million ounces yearly will be placed on the open market. At first glance, it would appear as if this increased supply must have a very serious effect on prices. Unquestionably, the Pittman Act did prevent a very sharp decline in the price of silver during the past three years although the sponsors of the act could not foresee how very opportune its enactment would be for the silver producers.

Helped at the Proper Time

As it turned out, it gave support to the market just at the time it was most needed. While purchases were being made under this act, central and eastern Europe and even Great Britain were adding to the world's silver supplies either by the abandonment entirely of silver currency or the debasement of their subsidiary coinage. In other words, these very countries which in normal times are purchasers of silver for coinage purposes became sellers of the metal and had the American production not been held off the market at the time those sales were being made, undoubtedly very much lower prices for silver would have prevailed. In 1921 the continent sold on the London market 22,000,000 ounces of silver, in 1922, 19,000,000 ounces; in 1922 Great Britain disposed of 24,000,000 ounces. Sales by both Great Britain and the continent are likely to show decreases this year and will probably cease entirely in the course of a year or two and will thus very largely offset the effect of the American production being again placed on the open market. Further, as conditions in Europe improve—of which it must be admitted at the moment there seems little, likelihood, but which no doubt will take place some day – those countries, or some of them at least, which have been selling their silver coinage of late years, may again become buyers of silver for coinage purposes. On the other hand, it must be borne in mind that conditions in Mexico are improving and should they continue to improve the production would probably increase very largely and already Mexico is the largest silver producing country in the world. However taking a near view of the situation, it would seem unlikely that Europe will be much of a buyer of silver for coinage purposes within the next year or two; as we have seen the Mexican production is likely to increase materially; the entire American production after November of this year will be thrown on the open market. Unless India and China have a succession of unusually bountiful crops and are therefore very heavy buyers, the stocks that will be marketed during the next few years should be sufficient to meet all demands without enhancing the price. On the other hand, should the



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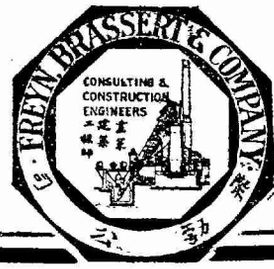

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25-268

demand from the orient for silver for any reason slacken, the price would undoubtedly decline.

It should be remembered also that the Indian government is most unlikely to be a buyer of silver for coinage purposes for many years to come. If crops are good in India the bazaars will buy, but not the government. In fact there is the possibility that the latter may at any time turn seller. The supplies of bullion in the Indian treasury at present are very large. The ratio of bullion reserve to note circulation in November last was over 64% as against only 38% in July 1918. Further of this large bullion reserve almost 80% was in silver. It is thought not unlikely that in time the Indian government will sell part of its silver holdings and with the proceeds acquire gold to be used in connection with the establishment of the gold standard in India. However this is not likely to be done in the near future as the British government will no doubt be a good buyer of gold for some time to come for shipment to the United States in payment of war debts and interest, and will thus probably discourage purchases by the Indian treasury. However should India at any time become a seller of silver, the outlook for the white metal would indeed be gloomy as China alone could not support the silver market. Then, there is the possibility that some day China too will adopt the gold standard; that day now seems far off, but when and if it comes, silver will no longer be regarded as a "precious metal." That proud position will alone be occupied by gold.

Europe's Course Is Uncertain

While the outlook for silver does not appear bright, it should be pointed out that the silver market is a notoriously erratic and uncertain one and one regarding which it is unsafe to appear dogmatic. Another great world war stimulating production all over the world and requiring large sums for the payment of troops, would no doubt result in a greatly increased demand for silver. Some of the European countries now struggling with depreciated, or almost worthless, paper currencies may turn to silver instead of gold. Gold is likely to be too expensive a luxury for Europe for many years to come. Then again while the general trend of the price of silver may in future be downward, there no doubt will at times be sharp reactions; of this we had an example in China less than a year ago. Civil war broke out, large armies which had to be paid in silver were put in the field. Due to disturbed conditions runs started on some of the banks necessitating the strengthening of reserves, which could be done only by the purchase of silver. Large buying orders were sent to London and America and the price rose sharply, only to fall again when peace was restored. It should be remembered that in a country like China there is no financial machinery which makes possible the postponement of the settlement of balances by bank credits, bond issues and such things. Banks cannot strengthen their reserves by discounting with the Federal Reserve Bank or the Bank of England Runs on banks are contagious; when they start in China it means that many banks are buyers of silver at the same time the inevitable result that the price is forced up sharply. Occurrences of this kind have been not infrequent in the past in China and similar countries. It would be too much to expect that they will not happen again in the future, and when they do happen they will undoubtedly have the same result, but after all, they will have little permanent effect on the ebb and flow of the silver market.

(*Continued from page 35*)

Chinese Banks under Foreign Law Doing Foreign Exchange Business

Bank of East Asia
Chinese-American Bank of Commerce
Sino-Italian Bank
Exchange Bank of China
Chinese Merchants Bank (Branch in New York)

Chinese Commercial Banks Not Doing Foreign Exchange Business

Tung Lai Bank
The Continental Bank
King Chong Banking Corporation
Salt Industrial Bank
Young Brothers Banking Corporation
Ningpo Commercial Bank
National Industrial Bank of China
Yung Hung Banking Corporation
Tung Lu Bank
Sin Hua Savings Bank
City Bank of Shanghai
Chung Hwa Commercial and Savings Bank
Kiangsu Bank
Bank of Labour and Agriculture
Soochow Savings Bank
Chekiang Silk Merchants' Bank
Ming Hwa Bank
Bank of South Eastern China
Chinese Industrial Bank
Whei Hai Industrial Bank
Cotton Industry Bank of China
Industrial Development Bank of China
Bank of Agriculture and Commerce
Kiangnan Bank
Shantung Bank
Bank of Manchuria
Hwa Dah Commercial and Savings Bank
Tao Ih Bank
Coal Merchants Bank
The Asiatic Commercial Bank
Sing Tung Commercial and Savings Bank
Pah Hwei Commercial and Savings Bank
People's Bank
Shanghai Tientsin Bank

Chinese Commercial Banks under Foreign Law.

Industrial and Commercial Bank
Union Bank of China

Government Bank.

Bank of Communications

Chinese Bank under Foreign Management.

Commercial Bank of China

This imperfect article will, I hope, give some idea of the Chinese banking activities here and perhaps may lead an abler pen than mine to write a more technical article with more information. I have simply skimmed over the subject.

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The Native Banks of Shanghai

(*Continued from page 32*)

form small groups for the purpose of assisting each other, hence the terms "big union," small union," etc.

There are four bases for classification of the native banks. Banks in the international settlement form a group known as the "North City Banks," and those in the Chinese district are called "South City Banks." The two guilds come together in the Bankers' General Association. This association has its headquarters in the South Garden of the Chinese City and therefore is known as the South Garden association. One frequently hears bankers who are not members of this association referred to as "non-members of the Garden." Besides the foregoing organizations there are two groupings of bankers that should be mentioned, the Bankers' House and the Clearing House. The latter, as its name suggests, is the place through which member banks balance off the orders against each other.

I shall give in the following paragraphs a resume of the various organizations of native bankers, their functions and plans of organization.

The Native Bankers' Association

This association is organized by the native banks of the two cities (north and south), and its headquarters is a place at which the native banks hold meetings. At Chinese new year a general gathering is held here, and matters pertaining to the business of the banks are discussed. The association elects its chairman annually. In the meetings matters involving interests between the banks and other firms are considered.

Bankers' Guilds

There are two guilds, the North City and the South City guilds, each having as its members banks in its district. In the meetings of the respective guilds matters affecting the banks of that district are considered. A chairman and twelve directors are elected annually, the directors looking after the affairs of the guild by monthly turns.

Bankers' House

The Bankers' House, whose members come from the two guilds mentioned above, affords a place of meeting for its members and a place for the discussion of matters that are not of the very greatest importance to the banks. In reality, the matters considered here have to do with business among the members themselves, while the association headquarters is the place for consideration of matters between the bankers and outsiders. Unless there are important matters to be considered the bankers meet at the house, but matters of grave import go before the association bankers. Since the members of the house are there every day in connection with currency exchange rates, interest rates and such matters, this place becomes in effect a bankers' club.

Clearing Association

This association takes the place of a clearing house organization in other countries. The association has no special home of its own, but its members meet in one of the member banks. The purpose of this association, as the name signifies, is for the balancing of accounts on orders between the banks. About 2 p.m. daily each bank makes out a statement showing its standing as regards orders from and on other banks. Then about 4 p. m. member banks send representatives to the clearing association meeting and there the checking of accounts is held, the banks remitting to each other on the basis of their relative standings. Usually if a bank has large remittances in this connection payment is made by order but if the remittance is small payment is by cash. This clearing arrangement is enjoyed only by members of the association. An order issued by a member of the association is stamped with the characters which mean "clearing." Banks belonging to this association are referred to as "clearing banks;" to identify them from the smaller banks.

Organization of Shanghai Native Banks

The organization of a native bank is different from that of a foreign bank. The Chinese family system has its effect upon the plan of organization of the native banks, since the latter originally were organized for the purpose of taking care of the income from property and other funds belonging to the wealthy families, or for the financial support of a commercial house and commercial houses frequently had family connections. The family had its bank when the family fortune was very large, and the commercial house organized its bank when it felt the need of a liberal supply of funds for carrying on its business or for the consolidation of its financial connections to avoid losses on exchange. In most cases an institution is in existence for a long time before it actually carries on a banking business, even though it may have been established for that purpose.

Because of the situation described above calling for an established standing before the actual conduct of a banking business, most of the native bank heads are wealthy merchants. Usually the one who really heads a bank is not its active manager, since the latter needs be one who has had banking experience. There are a few exceptions in which the manager is the owner of the bank, the one who profits or loses by its transactions.

Organization of Native Banks

The office organization of a bank is as follows:

MANAGER—The manager, who takes full responsibility for the conduct of the affairs of a bank, and employs and discharges members of the staff. Sometimes the manager is a partner in the bank, or he may be only a salaried employe, possibly receiving in addition to his salary a bonus. Most of the managers have served long apprenticeships in banks, know the routine and have extensive experience to enable them to handle the business properly as well as to establish themselves in the confidence of the proprietor. Some of the larger banks have submanagers to assist the managers.

COLLEAGUES—A native bank has an extensive staff, each member having his duties. The plan of organization differs in different banks, but usually the staff is divided into the indoor and the outdoor department. The indoor staff handles the correspondence, accounting, receipt and safe keeping of funds, and the waiting on patrons and visitors. The work of the outdoor employes consists of investigations, canvassing, consulting, etc. Salaries depend largely on the length of service, employes being advanced step by step up through the organization.

APPRENTICE—An apprentice or student has to go through a three-year course of training before he is promoted to a position on the staff. After his

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apprenticeship is completed, rate of advancement depends on the quality of work of the individual. (Occasionally one is permitted to complete his apprenticeship in less than three years.) An apprentice receives no pay, except his food and lodging and a small bonus at the end of the year. Some banks require their apprentices to deposit a guarantee, although this is a small sum, probably not more than a hundred dollars. An apprentice performs the work of an office boy and messenger. This system of apprenticeship is common throughout the country.

CAPITAL—The resources of a native bank may be said to be unlimited, since the extent of liability is measured not by the capitalization but by the resources of the proprietor or proprietors. In other words the resources of the proprietor, or proprietors, constitute the capital of the bank. Therefore in considering the strength of a native bank one considers not so much the capital as the resources of the persons behind it and the ability of the manager. A native bank really is a company with unlimited liability.

The business of Shanghai native banks may be divided into six branches, which are as follows:

DEPOSITS—Native banks classify their deposits on the basis of the character of the deposit and the length of time for which it is carried. On this basis they have short term or current deposits and long term deposits. Generally a bank has more of the short term deposits than the long term. A bank cannot start in business until its short term deposits have reached a substantial total. Commercial houses which carry on extensive business usually have substantial current accounts. It is customary for native banks to send to commercial houses, whose business they would welcome, pass books the first or second week of the Chinese new year. With this pass book the firm may deposit and check out money to a given amount, the pass book being good for one year. Persons desiring to open an account with a bank are required to be recommended by some one known in the bank. The custom just mentioned does not prevail in the modern banks.

There is no well-established rate of interest on current deposits, but it usually is higher in the native banks than in the modern type of banks. Some banks pay no interest on current deposits for the first and last months of the lunar year. The character of the long period deposits is the same as that of the fixed deposits in modern banks, although when in urgent need the depositor is permitted to draw part of his money or interest may be paid monthly. In some cases the depositor of long term money is granted an overdraft privilege. In this respect the native banks differ from the foreign banks. Generally deposits from business firms are of the current nature and those from government offices and from personal patrons are of the long term nature.

The rate of interest on long-term deposits is irregular. Although the bankers' association sets a rate the members are not compelled to adopt that as their rate, and as a matter of fact, they do not. Because of the different rates in different banks one may find a current deposit or in one place drawing as high an interest as a long-term deposit in another, or the same character of deposits may have rates varying as widely as two of three per cent at different times and depending on different conditions.

LOANS—Loans are divided into two classes, overdrafts and long-term loans. A depositor usually may overdraw his deposit, by arrangement, which usually fixes the sum by which he is permitted to overdraw. Sometimes the observance of the fixed sum for overdrafts is not strictly enforced and depositors are permitted to overstep it. Persons who are not even depositors sometimes are allowed overdraft privileges, in which practice native banks differ from foreign banks. Chinese new year is a time of financial reckoning and overdrafts at the banks must be squared up at that time, unless by special arrangement they are permitted to be carried over.

So called long term loans usually are for three months, six months or a year, although the time first set may be changed by agreement. Interest on loans differs at different times. The rate usually is two or three per cent higher here than in foreign banks.

REMITTANCES—Since the native banks limit the scope of their business to local business they are little concerned with outport remittances. They usually have many branches, but the scope of each branch usually is limited to its own field. For that reason the Shanghai banks exert the greatest influence here. The most imporant places where the Shanghai banks have branches are Tientsin, Hankow, Canton, Chefoo, Wuhu and a few places in Kiangsu, Chekiang and Fukien provinces. Some of the banks here which really do not have branches in other places have connections with banks in other cities and this works to their mutual advantage. The native banks have two ways of remitting, one by draft and the other by letter. The time of paying a draft is fixed either by the issuing bank or an arrangement with the paying bank, but the general practice is that a draft should be presented to the paying bank for acceptance, and when accepted the date of payment is written on the draft by the bank—a certain number of days of grace is allowed.

ISSUE OF NEGOTIABLE PAPERS—The chief business of native banks is the issuance of negotiable papers. A bank is permitted to issue bills and circulate them in the market to raise money. According to the character and time of payment we may divide them into two classes, orders and notes. The denomination of a note may be in copper cash, silver dollars or taels. The note is payable on demand, no name of payee or time of payment being given on the note. When a note is lost there is no way for the owner of it to get it redeemed by the bank, and the loser really is the loser. An order, however, is a promissory note, with the date on which payment is due written on it, and the holder cannot redeem it at face value before the date on which payment is due. These orders are issued for periods varying from a few days to a month or possibly several months. These orders are negotiable papers, and if one comes into the hands of a person who is not satisfied with its genuineness he takes it to the bank issuing it for inspection. If it is pronounced genuine the bank puts its chop or seal on it, writing on the order the date on which it was so examined.

Native banks issue check books to depositors much the same as foreign banks, except that the checks differ in form. Whereas a foreign bank's checking system provides only a blank for a check and another blank for the stub to correspond to the check, one part for the actual check and the other for the depositor's record of the same, the Chinese native bank checking system provides three parts, the check, the depositor's stub or record and a reference slip or counterpart which the depositor sends to the bank for proper identification. Before a check is paid it is compared with the identification slip. Orders serve the same purpose for the native banks as bank notes for foreign banks.

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The Funding of China's Debts

(*Continued from page 25*)

other country they would either be non-existent or would be included in the legitimate tax schedule. The same may be said of bribes in yamens.

Apart from these haphazard impositions it must be remembered that the Chinese people in every community either provide for themselves or go without conveniences for which households in other countries are taxed. Water and sewage systems, for instance, are covered by taxes in most modern countries.

Whether the average Chinese now pays $1.20 a year or $12 a year in taxes, direct and indirect, there is no way of judging whether he can afford an extra 10 cents except by trying it. If the normal annual increase in the importation of necessities and luxuries persists after the prospective tariff increases, it will prove that the consumer can afford to pay 2½ percent more for imported necessities and 5 percent more for luxuries. If it decreases, it will prove that he cannot

Mr. Padoux goes on to explain that consolidation would mean the redemption of the existing debt through the issue of new bonds and the substitution of the new bonds for the old ones. This would involve:—

(1) an extension of time for the short term debts.

(2) a reduction of the interest in every case where excessive rates have been charged.

(3) as a compensation for such extension of time and reduction of interest, the granting of adequate securities.

In a final *résumé* of his scheme, Mr. Padoux emphasizes several points. The first is that this scheme would deal with foreign and domestic unsecured loans without discrimination. The second is that while the customs revenues will be pledged for some time to come and the salt revenues for a short time at least — presumably while the deficits of the first four years in the loan schedule are being made up — there will be absolutely no domestic or foreign charges on the wine and tobacco tax, on the Octroi, on the stamp duty, on the title deeds tax, etc., etc. This note is evidently designed for Chinese consumption, to sugar the proposition for official consumption. The third point is that whatever net surplus comes to exist as the years go by can be used for the interest and amortization of the consolidated domestic bonds with an understanding that the surplus should be used to meet no other charges until these bonds are served.

Assuming that Mr. Padoux's figures are comprehensive and that his faith in the growth of the customs is justified (and the writer is not qualified to assume otherwise) from the creditor's point of view it is a perfect scheme. Those creditors who loaned money in good faith will be assured that the security is ample and that their interest will be regularly paid. The vast majority who loaned money for political purposes, or who made small advances against paper which at face value far exceeded their advances will be getting money that they never expected to get and will, in the layman's opinion be given consideration which they did not deserve. From the Chinese official point of view, if the consolidation does nothing else it will sweep aside with one stroke of the pen a whole army of aggressive and annoying creditors at no more cost to officialdom than the imposition of a new tax on the Chinese people which the foreigner will take the trouble to collect. It will serve moreover to cheer up the holders of domestic bonds because these bonds, under a prior consolidation with the customs surplus as security, will be pushed well up in the list of prior liens, high and dry above the treacherous fluctuations of commerce and gold exchange.

The Real Malady Untouched

To these ends Mr. Padoux's scheme is perfectly adapted, so far as the writer's knowledge will permit him to judge. As a means to the ultimate end—the financial reconstruction of China, as it is announced on the cover of Mr. Padoux's pamphlet—it is obviously worse than inadequate. One does not have to qualify as a financial expert to understand that to restore China's credit—her borrowing capacity at home and abroad—before the fundamental solution, which Mr. Padoux has outlined so clearly in his opening paragraphs has been reached, can only serve to defeat the ultimate end and to postpone indefinitely the inevitable solution. There are times when a surgeon can only save a patient by using a knife. The longer he postpones the operation the larger is the growth and the less the patient's recuperative power. Mr. Padoux is like a surgeon who has correctly diagnosed his patient's malady, but who suggests rubbing sweet ointments on a malignant growth.

As the writer pointed out previously Mr. Padoux has a very accurate conception of the first essentials to China's financial reconstruction and he has worked out also an apparently practical scheme for funding the unsecured debt. But the double title of his report would imply that the consolidation of the unsecured debt had something to do with China's fundamental rehabilitation. This Mr. Padoux fails to demonstrate between the covers of his pamphlet and, lacking other guidance, it is the writer's opinion that a funding loan and the establishment of a system under which the taxes paid by the Chinese people would go to support a Chinese government, have nothing whatever to do with each other. Granted the financial reconstruction of China on the fundamental basis of mutual accountability between the government and the provinces and between officialdom and the people, a consolidation of the national debt, if then necessary, would follow in natural sequence. But the reverse of this propoition is not at all obvious. The writer finds it impossible to see how the funding of the unsecured debt can serve as a means to financial reconstruction.

It must be understood of course that Mr. Padoux's plan for a consolidation is his own plan and that which the general outlines of the scheme meet with the cordial approval of the banking representatives of both foreign and Chinese creditors who hold the government's unsecured paper, the latter are not likely to adhere strictly to the limitations imposed by Mr. Padoux when a funding loan comes to be discussed as a condition to tariff increases in the autumn. Mr. Padoux's outlook upon the future of the customs revenues, for instance, though probably justified by trade increases in the past, is much too sanguine to satisfy hard-headed bankers who want a liberal margin of security over and above the service and amortization of a loan. Mr. Padoux promises the Chinese that the salt surplus will be mortgaged for a few years only (if at all) and that all such other quasi-securities as the Octroi, stamp tax, wine and tobacco tax and the like will be absolutely free of charges. He also leaves the Ministry of Communications' obligations off his list, because the railways themselves are supposed to provide adequate security. It is probable that these statements are only designed

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The Funding of China's Debts

to accustom the Chinese mind to the thought of a funding loan; to create a Chinese prejudice in its favor so that the way will be paved for the propositions which the bankers come to make next autumn; but it is possible that Mr. Padoux thinks that the Chinese can negotiate the funding loan on such terms.

Bankers and Funding Loan

There is every reason to think otherwise. The bankers have the funding loan in mind. They are in fact determined upon it, and they have their eye upon the prospective customs increases as the principal security, but they have just as surely made up their minds that the railway loans now inadequately served and the railway debts to purveyors of supplies which are in some instances huge, are going to be incorporated in the funding loan and that the salt surplus, the wine and tobacco tax and certain railway revenues are going to be pooled with the customs increases to provide security for a consolidation of bad debts which cannot possibly total less than $700,000,000.

Commerce is the keystone of every foreign community in China. With the exception of the missionaries, the followers of all other trades and professsions in the Westerner's Orient, deliberately minister to commerce, and there is no denying that missionary endeavor serves it indirectly. In the long run the number of us who play our various parts in China and our per capita wealth depends entirely upon the prosperity or poverty of the foreign trader. If there were no trade possible in China, nothing to attract the barterer from abroad, there would be no diplomatic agents here now, no newspapers in circulation, no consuls, no lawyers, no one much, in fact, but missionaries, and very few of them. Banks and bankers are no more independent of the trader than his dependents of any other class. There are banks which, it is said, could pay their shareholders dividends out of the profits derived from handling Chinese government money without touching a cent's worth of commercial business, exchange or anything else; but trade opened the way for them and if trade were to go, taking with it inevitably its cohorts of diplomats, consuls, journalists and what not, the bank that dealt in loans and Chinese credits only would be like the courts of Jamshed in a very few months.

Just as consuls in China often come to think that they are the governors of the communities of mere traffickers in which they reside instead of the humble servants of trade, so the Peking bankers have been known to say that they constitute the House of Lords, while the traders make up the commons. Needless to say governments do not put these relative valuations upon trade and finance. The financier who puts banking interests before trade interests, or who puts the interests of those to whom he has sold securities above trade interests, is in the long run an enemy to national interests.

We often speak of our various national interests in China. The only interests which are internationally recognized by any of our existing treaties are trade interests and financial interests since sentimental interests are taboo in this dissertation. According to the economic axioms which are cited above financial interests in China must be subordinate to trade interests, if either are to be forwarded or fostered.

Trade everywhere is very sensitive to political conditions. The writer has seen a deaf Chinese hawking gold fish under point blank machine-gun fire, but the god of wealth seldom works such miracles for his votaries. Granted a supply and a demand, trade depends almost wholly upon peace, free and equal opportunity, immunity from impositions and the consistent administration of some sort of justice, however rough hewn. To all of these conditions, in any country, a stable, respectable government, exercising authority throughout as much of its dominions as the trader has any reason to exploit, is an absolute essential.

The present government, governments, or lack of all government in China, as you please, provides none of these essential conditions to a degree favorable to the present bulk of trade, native or foreign, and gives absolutely no promise of providing such essential conditions to the growth of our national trade interests in the future while the existing political conditions persist.

The real point which all this prefaces is that the funding loan scheme, coming before the reunification of China and the establishment of a government enjoying the confidence and support of the provinces, is designed not only to perpetuate but to foster for a long time to come all the chronic political evils hostile to foreign trade interests in China, and is something therefore, which we are all in duty bound to fight. Q. E. D.

Any scheme, conceived in China or abroad, which is designed to put money or negotiable credits in Chinese official hands can do nothing but make political conditions worse in China and postpone indefinitely the evolution of a competent government.

One of the arguments for Mr. Padoux's consolidation scheme is that it would starve the Peking government, starve it to the point of extinction, at which point the provinces would either have to rally to the support of their government, if they wanted one, thereby establishing a precedent which died with Yuan Shih-kai, or confess to the world that they could not or would not make a government and support it, thereby issuing an invitation to the world to impose a government upon them. If one reads between the lines of Mr. Padoux's memorandum it would appear that he himself implies some such argument for his consolidation plan, though being a document submitted to a Chinese official body by an adviser in government employ it naturally leaves this interpretation to other advocates of the scheme.

A careful reading of the memorandum will however disclose many loopholes and, in the writer's opinion, one great weakness which any other similar scheme must share with Mr. Padoux's.

Results of the Loan Orgy

Peking has enjoyed no provincial remittances of taxes for some years. Whatever slight tendency to follow the precedent of imperial days of making some account to the central government of taxes collected survived Yuan Shih-kai's collapse and death, was effectually wiped out by the loan orgies of 1917, 1918 and 1919. The proceeds of loans to an enormous total (which would now make up the bulk of the suggested consolidated debt) were so much more than sufficient for the central government, for the lavish expenditure upon the armed forces equipped and trained for the support of the government, and for the personal enrichment of the whole official caste in the capital, that the provinces were not only allowed to retain local revenues as the price of nominal loyalty and in other cases as the price of silence, but were also given a share in the vast loot as a further inducement to

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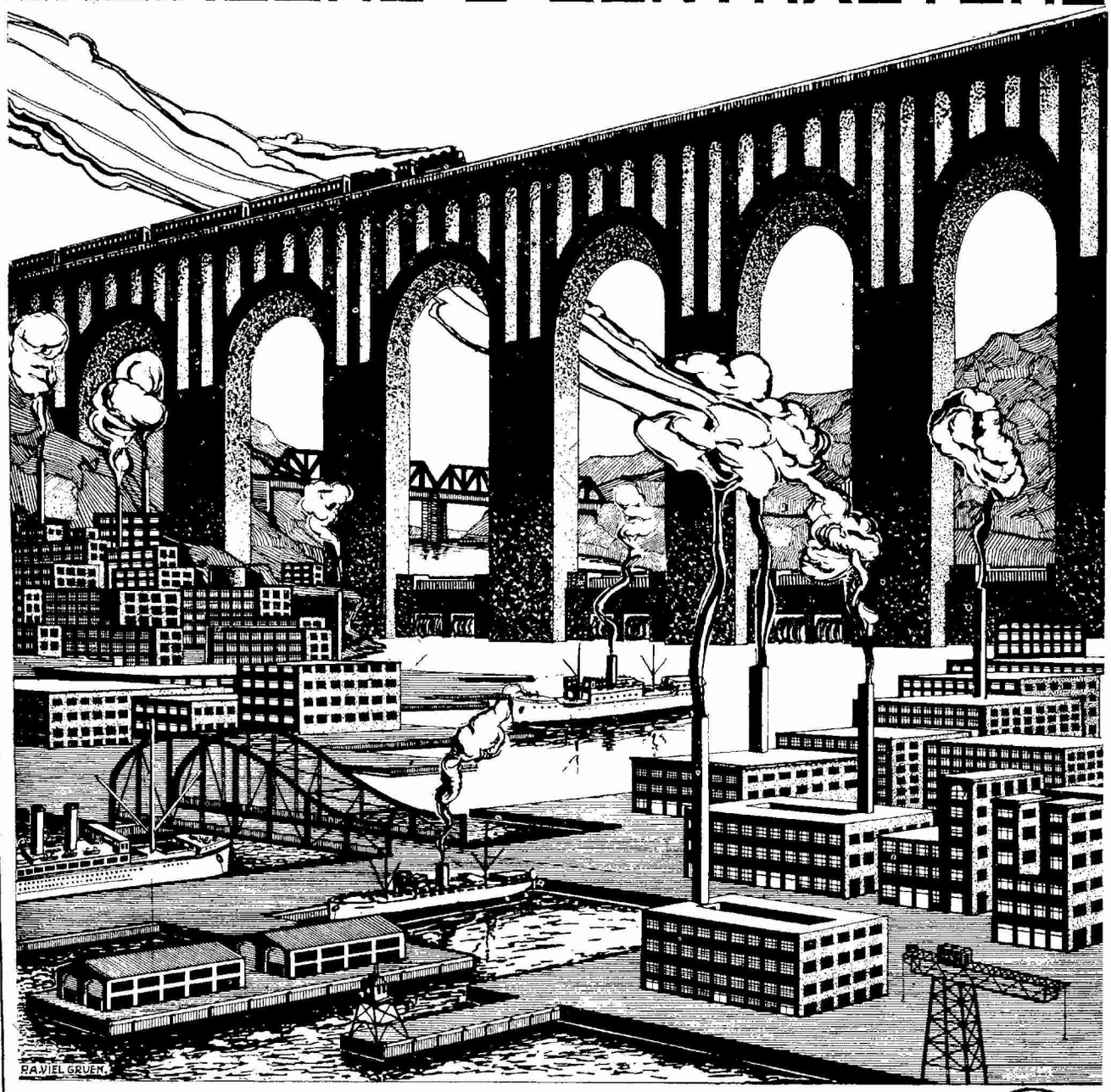

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active support. So in the stead of the old imperial tradition, there grew up in the provinces the conviction that by the nimble manipulation of high finance the Peking government could always look out for itself and leave the provincial chiefs to farm their own bailiwicks for all they were worth, but there grew up the still more dangerous belief that Peking was habitually doing so well that those high functionaries who agreed to rusticate in provincial capitals were entitled to a commission.

The only existing reason for the provincial recognition of provincial appointments and concessions sold in Peking is the hope among the provincial chiefs that Peking will again contrive to borrow money in large sums and can again be blackmailed for a share of the loot. If anything were to happen to shatter this hope, Peking's appointments in the provinces would not be worth a counterfeit copper, "patronage" in the capital would dwindle to local proportions and ministers of state would dabble like police sergeants in petty municipal graft. So long, however, as petty local taxes, such as the Octroi, the stamp tax, the wine and tobacco tax and the like, continue to dribble in and the persons who sit in the various ministries still contrive to cajole the powers into believing that they constitute a government of China, so long will this governmental make-believe drag painfully on and so long will the clique which happens to be quartered here have sufficient "face ' with the provinces to elicit nominal recognition from a few of them and to keep the ministries open through patronage!

If Mr. Padoux's scheme held out no further promise to officialdom, the loopholes in it would provide for the endowment of such a government as we have now in Peking for just as long a period as the powers would continue to recognize it. No one would be quicker to see this than the Chinese official.

Allowing for a few years of stress and strain, during which the return from provincial appointments would be an exceptionally fine harvest because the provincial chiefs would also be looking to the brighter future and would be inclined to flirt with Peking, the prospective heiress, the salt surplus, free of all charges would, according to Mr. Padoux's schedule, be available within four years and in addition to this there would be a ***net surplus of Customs revenues*** beginning with $2,100,000 in 1927 and running up to the intoxicating figure of $116,500,000 in 1944.

New Orgy of Borrowing

It is not to be supposed that the Peking government would be content to wait until 1927, much less 1944, to begin to spend the next generation's heritage. The minister of finance who is functioning in 1924 will not be foolish enough to believe that he will be in office in 1927 to handle the net surplus of the customs revenues. It takes very little imagination to visualize cabinet ministers running about Peking and other bigger banking centres, with Mr. Padoux's schedule in hand showing a growing net surplus from 1927 thenceforward for ever more, trying to trade promissory paper against these brilliant prospects—and succeeding beyond a doubt.

It is obvious that a funding loan along the lines mapped out by Mr. Padoux, providing substantial security for a huge aggregation of bad debts, would restore China's credit at home and abroad the day that the loan contract was signed. The fathers of the funding scheme say and reiterate that funding the debt would not provide a penny of free money for the government. But to restore credit is to restore China's borrowing capacity and, as all of us know who can

sign chits an unlimited credit is a more convenient thing to carry around with one than a pocket full of silver.

There would be no good reason, moreover, why anyone seeking a long term investment should hesitate to lend against China's renewed credit. The Peking government is internationally the recognized government of China, and according to a precedent which will be firmly established if the funding loan goes through, the chop of any official of that government on a loan contract will be as binding as if the whole personnel, from the president down to the corner policeman signed it. A very diminutive percentage of the loans which are ear-marked for consolidation have ever had the approval of parliament. Many of the very important ones were never approved by a cabinet meeting, but went through, and would be secured by a funding loan because of the approval of some cabinet minister now in exile as a "national traitor." As for the treasury notes, and similar paper, which litter Peking's dust bins but which will be resurrected as *bonâ fide* Chinese government promises to pay, most of them were signed and distributed by the bale at appalling discounts to creditors whom various ministers wanted to sweep temporarily from the yamên doorsteps. The funding of all these debts without discrimination will put official and international blessings upon all the rotten financial high jinks of the past twelve years and will be an open mandate to the borrowers and lenders of every *regime* from 1924 onward to "go and do likewise." If the funding loan is signed in anything like the form which Mr. Padoux prescribes, every official in China will look forward to a revival of the halcyon days of the Nishihara loan orgy.

What the Conference May Do

When the international tariff conference meets in Peking next autumn there are several courses which it might follow in dealing with the proposed tariff increases and their prospective proceeds. It might endorse the imposition of the new tariffs without conditions, leaving the disposition of the vastly increased revenues to the "recognized" government. Upon this comment is superfluous. It might refuse to endorse the increases, or endorse them on condition that they be withheld until such time as China is reunited and the authority of Peking recognized by all provinces. Under such an arrangement things would go on much as they are, creditors would continue to storm and the debt, through the mere accretion of interest, would reach unmanageable proportions.

The conference might agree to the imposition of the new tariffs and assign the revenues to the service of the consolidated debt under some such scheme as Mr. Padoux's, leaving officialdom all possible elbow room not only to perpetuate existing conditions but to aggravate them. The conference, again, might endorse the new tariffs, assign the proceeds to the security of the unsecured debt, impose conditions which would directly or indirectly solve China's major political and financial problems, call upon the powers to impose these conditions, and appoint the consortium trustee of the loan with administrative authority to enforce the conditions.

Finally the international tariff conference might approve the suggested increases conditionally, recommending at the same time financial intervention, the creation of an international receivership under a commission of national agents constituting a permanent financial board during the life of the existing unsecur-

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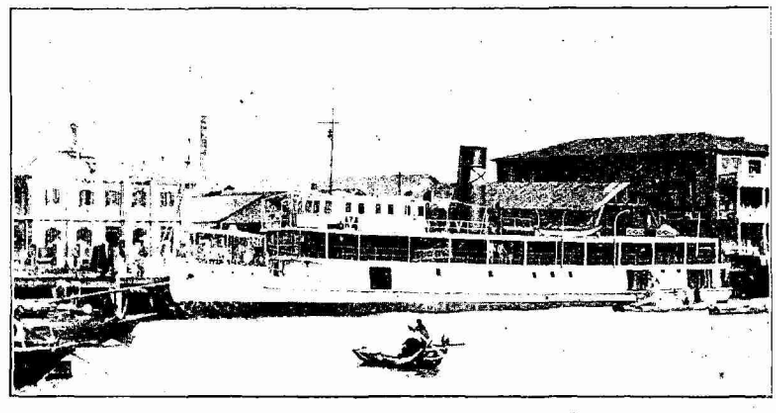

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ed debt, and recommending a policy for such a commission to follow which would solve China's political and financial problems within a reasonable time.

And More "Consolidation."

If diplomatic recognition of the Peking government were extended after the signing of a consolidation of the unsecured debt, there would be nothing (barring the armed intervention of some provincial fanatic like Wu Pei-fu who does not play the game) which could possibly prevent the ministry of finance from floating 20-year loans to a face value total of 50 or 75 million dollars, with a posterior lien on the customs surplus as security. There would be no interest available for some years, but for this compensation in the form of a heavy discount could be offered and this would occasion the government no qualms because the loss would not fall upon the borrowing incumbents but upon the next generation. If such foreign loans as those which are to be secured and served under the consolidation scheme can be consolidated once, they can be consoldated again and there would be in the funding of these loans every encouragement for participation in new ones.

The consortium would be some check on foreign borrowing but not a perfect check, because, contrary to current opinion, the four consortium groups do not enjoy a monopoly upon the protection and patronage of their four governments, though they tried hard enough to pledge their governments to such a monopoly, so that while the powers continue to recognize the Peking government, the independent money lender or concessionaire would be reasonably entitled in the future to use his Legation in Peking as a collection agency and to unite with other speculators, five, ten or twenty years hence, to force the various governments to push through another consolidation scheme. According to treaty the customs tariffs are subject to increase up to 12½ percent.

The consortium fathers of the funding loan idea are of course entitled to object that these criticisms are directed against Mr. Padoux's published scheme and that they are anticipated by conditions in more comprehensive schemes which they themselves have evolved, or which they will have worked out by the time the international tariff conference meets in the autumn. Until such protective conditions are published and subject to analysis, however, the whole scheme is rightly subject to suspicion. Last year the administration of the salt gabelle was brought to agree to the issue of Treasury Notes for $14,000,000 in exchange for a promise (supported by a presidential mandate) that when existing loans on the salt surplus had been funded (the "ninety-six million" loan), the surplus would not be further hypothecated. The promise has not been kept, the service of the funding loan has been diverted and the "96-million" bonds are now quoted somewhere below thirty. So much for exacted promises.

A Series of Absurdities

If such stringent conditions are imposed that it will be impossible for China to hypothecate her revived credit those conditions will be tantamount to financial intervention. If we are determined enough in this matter to resort to financial intervention there are better ways of going about it than through a funding loan engineered by corporations. Intervention is a job for governments and not for corporations nor for groups of corporations however inclusive. If the conditions imposed are effective enough to put an embargo upon the market-

ing of a revived Chinese credit either at home or abroad, and therefore tantamount to financial intervention, no Chinese official group, unless it be one devoted to the suicide of officialdom, would dream of endorsing them voluntarily. If we are strong enough and determined enough to impose such conditions against the will of Chinese officialdom then, as the writer has said above, a funding loan is not the legitimate solution, for more reasons than one to be detailed later. If the bankers draft a funding loan agreement which they think stops all loopholes and if the Chinese then agree cheerfully and voluntarily to become parties to such an agreement, it is to be taken for granted that Chinese officialdom sees ahead some easy way of evading and breaking the agreement and, that it will therefore be ineffectual as a means to the end of fundamental reform, upon which the future of our national interests is directly dependent.

If any league of bankers were to be the trustees, executors, or whatever you like to call them, of a funding loan under such conditions, the powers would have been parties to intervention along the most drastic lines in the interests of a league of private corporations. The whole deal would then be rightly subject to all the suspicions and doubts which imaginative minds are now inclined to focus upon the consortium.

Each power would independently institute an investigation into the loans and other extensions of credit made by its nationals to the Peking government, and would, after studying the circumstances under which such loans had been made, consolidate them on terms fair to its own nationals and to China, issuing its own government bonds, bearing a fair rate of interest to its own nationals.

Each consolidation would then constitute a Chinese government debt to the Power effecting the consolidation, to be redeemed according to a long term scheme of amortization.

The security for the aggregate of such consolidated loans would be the aggregate of China's revenues, national, provincial and local An international commission would direct the collection of these revenues as they became available and administer the international debt service.

This international commission would take immediate charge of all the existing revenues of the Peking government, plus the proceeds of the tariff increases

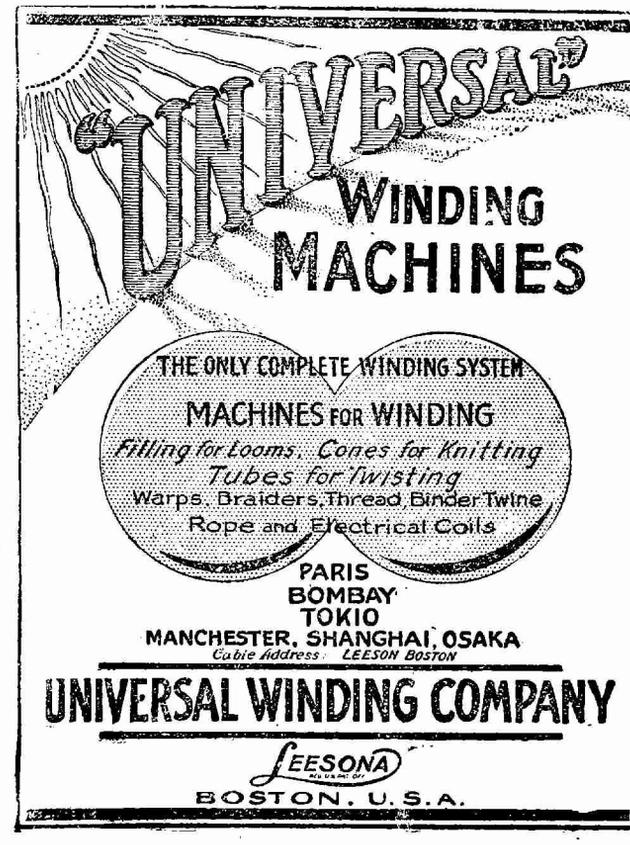
Recognition of the Peking government would continue to be extended, and there would be no interference in political matters and no attempt to dictate the form of the government, but all surplus revenues would be withheld as a trust fund, pending reunification and the effective recognition of the authority of a Central government of some sort by every province and district in China. The provinces would be forced either to create and support a government to their tastes or do without one.

Prior to the release of surplus revenues the international commission would make a rigid survey of all of China's provincial and local revenues, from taxes and impositions, and would compile an estimate of legitimate local, provincial and national administrative expenses, an estimate of the surplus, an estimate of the amount required for the maintenance of an efficient national army and navy and, finally, publish in China and abroad. all the results of such surveys and estimates with recommendations for the disposition of China's revenues.

The moral effect of such a programme upon the people of China and their governors might not be immediate but it would be sure. China would not evolve an immaculate government over night, but there would be every normal incentive to reform except that of the exercise of material force which, for reasons too numerous to detail, we have every good reason to avoid.

This programme of course entails drastic and unconventional steps. The Powers which have not only steadfastly refused to withdraw recognition from the various unrepresentative Peking governments, but have also continued to endorse the collection of revenues for that government, are likely to be horrified by such suggestions.

It is not likely that the international tariff conference will recommend an international receivership; it is still less likely that the powers would act in concert upon such a recommendation. But failing such a programme there is no funding scheme which will not do more harm than good, nothing better than the *status quo*. If there is not to be financial intervention, leading to fundamental political and financial reform in China as a preliminary or as an accompaniment to a debt consolidation, then all hands, Chinese and foreigners, are better off without a consolidation. We had better wait twenty years or fifty years for China to evolve a government guaranteeing peace and equal opportunity to traders, than aggravate conditions by meddling clumsily, or by allowing one group of interests to meddle selfishly, for the sake of expediency, to the lasting discomfiture of all other interests, commercial or otherwise.



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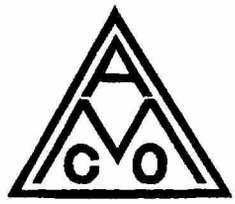

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Shanghai Mint to Pour Out Silver Dollars

(Continued from page 38)

as is possible. There are two particularly large vaults, one at the receiving end of the plant for the storing of bar silver, and the other at the opposite end for the safekeeping of coins. The making of the coins will be practically a continuous process from the time the metal is taken from the first store room until it reaches the other, in which it will be placed in sealed bags, the contents of which will be carefully counted in convenient quantities for releasing for circulation.

Commercial Interests to Cooperate

The financial and commercial interests of the country will be asked to assist the mint management in carrying out the program to centralize and stabilize the monetary system of the nation. One of the reasons for inviting such cooperation from the public is to establish confidence in the money of the land, the lack of which is a handicap to commerce at present. The bankers will be given every opportunity to see that the money from this mint is fully up to standard.

The importance of a mint in China is far greater than in the western countries, because China is a silver money country and there is no national paper money. Bank notes are used, but there is such a variety of kinds and classes of bank notes that their use frequently is a hindrance to commerce. The better class of banks in Shanghai issue notes, in which the public has confidence because the banks are known to have reserves to back them up, but in many parts of China notes are issued with little or nothing behind them, possibly with only the promise of a tottering provincial government or a failing bank, private or governmental. One of the sources of strength for the foreign banks is the charter under which they operate, the charter which requires them to have resources for the protection of their patrons, which is to say a charter which gives the public confidence in them. Lack of adequate banking laws in China has an effect whose harmfulness is far reaching.

Banks That Issue Notes

The following is a list of Shanghai banks which issue bank notes:

American—American-Oriental Banking Corporation, Asia Banking Corporation, and International Banking Corporation.

Belgian—Banque Belge Pour L'Etranger.

British—Chartered Bank of India, Australia and China, Hongkong and Shanghai Banking Corporation, and Mercantile Bank of India, Ltd.

Chinese—Bank of Agriculture and Commerce, Bank of Canton, Bank of China, Bank of Communications, Commercial Bank of China, Industrial Development Bank of China, National Commercial Bank, Ningpo Commercial Bank, and The China and South Seas Bank, Ltd.

Dutch—Netherlands Trading Society.

Russo-Chinese.—Russo-Asiatic Bank.

Japanese.—Taiwan Bank, and Yokohama Specie Bank.

Sino-Japanese—The Exchange Bank of China.

The Banque de l'Indo Chine (French) formerly had notes in circulation.

Several times in this article the other mints of China have been mentioned, and reference has been made to the lack of uniformity of their coinage. Something of an idea may be gained by referring to these mints, and for this reason a list is given here.

Chinese Provincial Banks

(*Continued from page 36*)

private shareholders took up almost the entire stock. The government, seeing that that it would be unable to deal with the private shareholders on equal standing attempted to take over the bank into its own hands. This conflict resulted finally in the separation which took place recently. Today the Chekiang Industrial Bank has a capital of $2,000,000 entirely private and is no longer a provincial bank. The capital of the government has been withdrawn and is being used as capital of the Chekiang Provincial Bank, a new institution.

From the case just described, one may gain the impression that while the provincial bank of joint ownership though possessing certain advantages, is not always successful, the provincial bank with pure government ownership must be even more uncertain of success. However, this is not necessarily the case. For instance, the Kiangsu Bank is one of the successful provincial banks financed entirely by government funds. The bank was organized in 1912 with a capital of $1,000,0000. In 1913, the Kiangsu government withdrew $400,000 for military purposes. With only $600,000 capital since 1913, the bank has been doing a very successful business and has accumulated for itself a surplus of $600,000.

Space is not available for us to enter into any other lengthy discussion of problems in connection with the provincial banks. In conclusion, it may be said that the success of the provincial bank is, to a very large extent, dependent upon the attitude of its government toward it. So long as the government refrains from interfering with the policies and work of the bank, it, no matter whether partly or wholly owned by the government, with or without power of issue, can be managed as successfully as any private bank.

Shanghai Mint to Pour Out Silver Dollars

(*Continued from page 78*)

Lists of China Mints

The following list of mints was prepared by A. Viola Smith, assistant American trade commissioner in Shanghai:

Canton—Canton Government Mint; silver coins; daily output estimated at Mexican $350,000.

Chengtu—Chinese Government Mint; silver and copper coins; American and Japanese machinery, one British engine.

Chungking—Chung Ching Tung Yuan Chu (Chungking Copper Mint). Established 1913; British and American Machinery; approximate capital invested. Taels 250,000; outport (in 1918), 23,104,100 copper pieces of a value of 50 cash each; employees, 540; British and German machinery; only copper coins minted; copper comes primarily from Japan.

Haigchow—Chekiang Mint; minting silver dollars; on May 27, 1922, reported to be turning out Mexican $180,000 per day.

Mukden—Chinese Government Mint; two heavy drop double rollers (German); smaller rollers (Japanese); coin presses (British); smaller presses (local make); machine shop lathes, drill presses and roll grinders (Japanese, English patterns); 1 Stowe engine and 5 Laewntein boilers (German).

Nanchang—Kiangsi Mint; minting copper coins.

Shanghai—Shanghai Mint; a new modern mint now in course of construction; to have a minting capacity of Mex. $1,000,000 per day, but at first will probably only coin about Mex. $12,000,000 per month.

Nanking—Nanking Mint; Established 1890; controlled by board of finance; employs about 400 men; plant purchased in England and Germany; capacity, 100,000 silver dollars per day; 1,000,000 10-cash copper coins per day.

Tientsin—Tientsin Mint; (Chinese Government Mint); Established, 1902; capital, $4,405,000; output in 1913; 34,955,476 dollars; 497,674, 50-cent pieces; 610,746, 20-cent pieces, 1,271,193, 10-cent pieces; 61 220,325, one-cent pieces (copper); 210 machines of all kinds. British and American plant.

Wuchang (Opposite Hankow)—Government Mint; minting silver and copper coins; American machinery.

Yunnanfu—Yunnanfu Mint; erected by German firm Carlowitz and Co.; capacity reported to be 50,000 fifty cent pieces per day; Plant said to be in deplorable condition.

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STRAITS SETTLEMENTS
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DOMINICAN REPUBLIC
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Chinese Finances since the Washington Conference

(*Continued from page 15*)

general customs revenues of the special revenues collected under the surtax. Of course, if Mr. Padoux's scheme of making all the national foreign debts secured and unsecured, foreign and domestic, a first charge upon the customs revenues should be adopted by China and the government concerned, then I take there would be no objection to the indiscriminate combining of special surtax revenues. If, however, any of the powers should object to the dedication of the entire proceeds of the surtax to the service of the secured and unsecured, foreign and domestic, national debts, then the special conference, which is clothed with power to determine the purposes and conditions of the surtax would find it necessary to insist that in the books of the customs department separate accounts be kept of such surtax revenues.

I must not, however, dwell longer upon these details. I am more concerned to draw your attention to the conclusion I drawf rom Mr. Padoux's admirable memorandum, That conclusion is that while successive governments in China have during the last few years been unable to meet the nation's obligations and have borrowed funds at extravagant rates of interest to escape governmental bankruptcy the country is nevertheless entirely solvent and its financial obligations could be discharged to the satisfaction alike of foreign and domestic creditors, and that without any appreciable increase of taxation, if only there were in Peking a stable and effective government,—a government in the enjoyment of the powers possessed by the governments of other civilized countries and conducted by men with the same opportunities for continuous service as those countries furnish.

Effective and Stable Government

This brings us to the most fundamental of China's problems at the present time—the problem of an effective and substantial government. The Washington Conference has, as I have already shown, undertaken to provide the fullest and most unembarrassed opportunity to China to develop and maintain for herself an effective and stable government." It may, I think, be asserted without fear of contradiction that the powers have in this respect fulfilled their agreements with reference to China. Not only have they put no obstacles in China's way but they have removed obstacles and smoothed her path. What then has China herself done in the way of developing and maintaining an effective and stable government since the Washington conference?

That question I do not undertake to answer. But I can point out that generally speaking a government is effective in proportion, first, as it can command the obedience of its subjects or citizens, and, secondly, as it can compel the regular payment of the taxes which it levies. Obedience is the first test. But the receipt of the national taxes is scarcely less important for unless nourished by regular supplies no government can permanently endure.

Back of all other problems in China and fundamental to their solution is the question of the authority of the Peking government. The supreme authority of the emperors rested not merely on force but on semi-religious sanctions, on traditions, on the weight of custom and habit. The imperial system of internal administration left to the provinces a large measure of home rule or autonomy, but the governing authorities of each province always indentified themselves

American Banks Taking Their Place in China

(*Continued from page 12*)

Prominent among the new organizations having an eye on the China field is the Federal Pacific Banking Corporation, recently organized under the provisions of the Edge law. For an explanation of this bank's plans here we quote the following from an article by Crawford M. Bishop, recently printed in the *Weekly Review*.

"In 1919 the American congress passed a special Act known as the Edge law providing for the incorporation of banks to engage in foreign banking and financial operations. This act provided for the creation of a system of banks as part of the American federal banking machinery, especially intended to assist in the development of foreign trade. These banks are designed to do for our international trade, what the Federal Reserve Banks do for our domestic trade. The fact that they are given a federal charter, that they are subject to the regulation and control of the federal reserve board, to examination by federal Reserve Bank examiners, that their acceptances are eligible for purchase by the federal reserve banks and their stock eligible for purchase by national banks, makes them of a semi-official or semi-public nature.

"Edge Law Banks, in addition to engaging in ordinary commercial banking, are also authorized to deal in securities. They may thus fulfill in China, for example, the functions of what are known in America as Investment banks or bond houses. There are two methods by which this may be handled. The Bank may either buy Chinese bonds, for example, and sell them direct to investors in America, or it may take such securities and pledge them as collateral, issuing its own debentures. If, however, it issues its own bonds or debentures, which in this case would be collateral trust bonds, and thus incurs a liability, it may not issue acceptances, nor may it receive deposits abroad. If it sells the foreign securities direct, but with its guaranty or endorsement, it must first obtain the approval of the federal reserve board for each transaction, and such issues would be included in the amount of liabilities to which it is limited by law, namely, to ten times the amount of its capital.

"The far east is a field in which the extension of long term credits has played an important role in international trade competition. Japanese, British, and, before the war, German banks have in this respect enjoyed an advantage over American banks by reason of their being in a position to offer better accommodations. American banks have been obliged to limit their operations to three months' credits, by reason of the fact that they had demand deposits to meet which forbade longer loans. Edge law banks, not being permitted to receive deposits in this country, and enjoying the privilege of issuing acceptances up to one year, have therefore a wider margin on which to operate in financing export and import shipment.

"The law authorizes the ownership of Edge law bank stock by foreign individuals or corporations up to 49 percent of the total. This makes it possible for such a bank, while holding an American Federal

(*Continued on page 85*)

Reorganization of China Domestic and Foreign Loans

(*Continued from page 22*)

revenue collected by native customs within the 50 li zone is part of the security for the indemnity, so that it can be expected that upon the abolition of the native customs this source of revenue has to be made up by the production and consumption Taxes) There is therefore very little prospect that these remaining native customs can collect production and consumption taxes to reach an amount approximating the sum of $ 30,440,000.

Licence and Income Taxes

The amount of revenue to be realized from this source being very limited, it appears to be a better policy to forego the rights under the treaties with respect to the production and consumption taxes and to introduce licence and income taxes, which may develop into a large source of revenue. Such a policy has the further advantage of being in accord with the desire of the merchants, who resent the obstruction of the native customs as much as the likin. This will also promote native industries and the circulation of native products. Its influence is far-reaching, extending beyond the immediate limits of providing good security for the consolidations of China's indebtedness. The objection may be raised that, in view of the fact that much of the revenue from the wine and tobacco taxes has been detained by the provinces and of the uncertainty involved in the introduction of new taxes, the foreign and domestic bondholders may not be satisfied with the above-mentioned taxes as securities. If such is the case, then the only other alternative is to assign the salt surplus as supplementary security to the customs surplus for the service of the loans and let the government rely upon the new taxes for administrative expenses.

In short, to maintain the credit of the government is the duty of every citizen. If we know that reckless borrowing is bad for the country, we must devise ways to make it possible for the government to live upon some other means than loans.

Amortization Table

Amortization Table for $ 569,777,780 face value of new bonds to be issued at 90% for redemption of $ 512,800,000 of outstanding indebtedness:—

Year	First Semi-Annual payment of interest	Second Semi-Anaunl payment of interest	Payment of Principal	Outstanding Amount
1 st	14,244,444.50	14 244,444.50	14,511,111.00	555 266 669.00
2nd	13,881,666 72	13,881.666.72	15 236,666.56	540,030 002.44
3 rd	13,500,750.06	13 500.756.06	15,998.499 88	524,031 502.56
4 th	13,100 787.56	13,100.787.56	16 798,424.88	507,233 077 68
5 th	12 680 826.94	12 680 826 94	17,638,346.12	489.594 731 56
6 th	12 239 868.28	12,239.868.28	18 520,263.44	471 074,468 12
7 th	11,776 861 70	11 776,861 70	19,446 276 60	451 628 191 52
8 th	11 290 740 78	11 290 704.78	20,416.590.44	431,263 601.68
9 th	10,181 590.08	10 781.590 02	21 436 819.96	409,826,781.12
10 th	10,245 666.52	10 245,669.52	22.508 660 96	387 318.120.16
11 th	9 682,963.00	9 682,953 00	23,635,094.00	363 684 026.76
12 th	9.091.100 65	9,091.100.65	24,815,798 70	338 868 227.46
13 th	8.471 705.68	8,471.705 68	26.056,588.64	312 811 638.82
14 th	7,820,290.97	7.820 290 97	27 359.418.06	285,452 220 76
15 th	7,136 305.51	7.136,305 51	28,727.388 98	256,724 831.78
16 th	6.418,120.79	6 418 120 76	30,163 758.42	226.561 073 36
17 th	5,664.026.83	5 664.026.83	31,671,946.34	194,889 127.02
18 th	4 872 228.17	4.872 228.17	33.255,543.66	161,633,583.36
19 th	4.040 839.58	4 040 839.58	34,918,320.84	126,715 262 52
20 th	3,167,881.56	3.167.881.56	36,664 236.88	90 051.025 64
21 st	2 251.275.64	2,251 275.64	38,497,448.72	51 553,576.92
22nd	1,288,839.24	1,288,839.42	40,422,321.16	11,131 255.76
23 rd	278,281.39	278.281.39	11,131,255.76	31,312,181.46

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25-286

Exchange Rates Fluctuate When Speculation Influences Market

(*Continued from page 40*)

dependent on the tendency and the monetary conditions of the market. If the rate in June was 4s 8d. with a strong tendency, 4d. 7¼d. for December could be secured, or if a quotation for every month was desired the contract would have read '4s. 8d. June and ⅛d. down per month to December.' If the market had been weak, on the other hand, nothing better than 4s. 5d. December or 4s. 8d. June and ½d. down per month to December could have been done.

"Likewise, for the sale of four months credit or documents for forward delivery, the example applies, only vice versa, as, with a strong tendency, the ruling market rate of the day for June and ½d. up per month to December would have been quoted. with a weak tendency, the ruling market rate up to December, or probably even better, might have been obtained. And this, of course, applies not only to London but also to all the other foreign markets with which China is dealing, even to those whose quotations do not appear in the exchange bulletin.

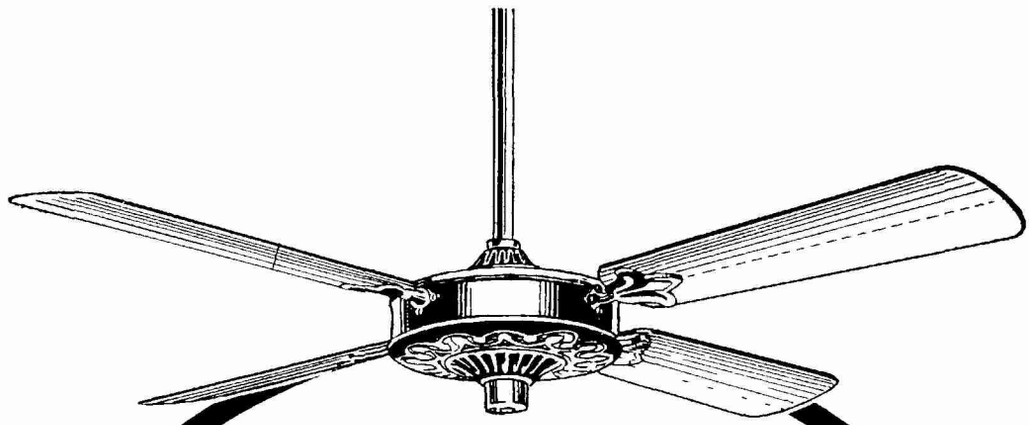
From the above it will be evident that the exchange manager not only has to cover his operations so far as rates are concerned but also must take into consideration the deliveries; if he knows his business, he must be able to conduct his transactions while employing as little as possible of the capital of the bank."

The Place of the Speculator

The foregoing paragraphs should enable the reader to appreciate the significance of the statement of the exchange banker, who said the speculator class of exchange dealers often relieve the banks from the necessity of becoming speculators. This banker was discussing the powerful influence of speculation upon exchange movements, and when he was asked if he as an exchange banker would wish to see speculation stopped, he replied that he would not want it stopped entirely but that he would like to see it reduced until it was just sufficient to take up the slack between the supply and demand resulting from natural trade. He explained that many times he found the demand created by speculators' purchases highly convenient. For instance, suppose the bank was selling but the demand resulting from the flow of commodities is insufficient to take the offerings, then the banker welcomes the offer that comes to him from a speculator. If it were not for the market afforded by the speculator the bank would be unable to sell without delay. The delay in selling would mean a risk as regards future rates. In other words the bank would be forced into speculation as regards future rates. In this case the speculator enables the banker to avoid taking risks he otherwise might have to take, and to this extent the banker considers the speculator a desirable sort of individual in the business.

However the speculator is an undesirable factor and force to a greater extent. He buys and sells in competition with the group of dealers who represent legitimate trade. The market with which he is concerned, if one could think of it as separate and apart from the market in which the banker who is financing the movement of commerce is engaged, is highly artificial and extremely whimsical. As a matter of

(*Continued on page 84*)



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59

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Exchange Rates Fluctuate When Speculation Influences Market

(*Continued from page 82*)

fact, it is impossible to separate the speculator market and the commercial trader market, because there is in reality only one market and the two factors are in it. Dealings take unexpected and unnatural turns when more than half of the business is done in the name of speculation. Rates are subjected to all sort of influences, some times all sorts in the course of a day. Theoretically, at the opening of the day the rate of exchange is based upon trade conditions, but very soon the complication of influences begins to exert itself and movements may be in a direction or to a degree not justified by conditions of trade. Speculators are swayed by reports and rumors, and rumors are both good and bad. Possibly a rumor that starts no-one-knows-where stimulates buying or causes a rush to sell, and the most absurd thing accounts for more transaction and influences rates further than the balance of trade or the relation of gold and silver. To some extent rumors are started with the malicious purpose of exchange rate manipulation, but apparently to a far greater extent the speculators as a class and as a mass are deceived.

Although at first glance it looks strange, inactivity in commerce generally means increased activity in exchange speculation. This was explained by a banker who declared that when business is dull in ordinary trade those who have been dealing in commodities begin dealing in exchange. For instance, a man who deals in cotton goods finds his income reduced when business is slow and transactions few. If he cannot buy and sell cotton goods he begins buying and selling exchange. If the cotton goods business improves later he may redirect his attention there and quit exchange speculation.

Many Factors to Disturb Exchange

Among the discordant factors in Shanghai exchange transaction may be mentioned the disorganization in the national financial system, including the lack of a national money. The monetary system of China is about as far from unified as it would be possible to make it. As is readily apparent, this lack of unity finds expression in the exchange field. The part the silver used here as money plays in complicating the exchange situation is discussed elsewhere in this magazine and therefore need not be considered here further than to be mentioned as one among the many factors. The unfavorable balance of trade will be touched upon later, in an extract from an address delivered by one far better qualified to analyze its effects than is the writer of this article.

The lack of banking regulations in China should not be overlooked. As long as conditions are such as now prevail in China, as long as a bank is just what it makes itself and is subject to no supervision or regulation, Chinese bankers will find themselves handicapped in participating in international banking. If China should enact and enforce banking laws which would classify and regulate the banks, which would eliminate part of them, and strengthen others, the modern type of Chinese banks, which of recent years have been reaching out into the foreign exchange field, would be placed on a more secure basis and would be able to associate and deal with the banks of the world in international exchange transactions more extensively.

Previously the foreign exchange business was carried on by foreigners but of recent years Chinese bankers have been getting more and more into the foreign exchange business. Foreigners still handle the bulk of the business. Extensive discussion of Chinese participation in exchange business is not included here because that topic is considered by Chinese writers who are contributing to this magazine.

The Shanghai Exchange Brokers' Association whose membership is limited to fifty, is exclusively foreign, and the foreign banks have an association of their own which dominates the foreign exchange business.

The brokers' association has strict membership rules. The reasons behind this can be understood when it is explained that the association, which was organized in 1906, was formed for the purpose of exercising control over exchange transactions with a view of keeping the business free from the undesirable class of dealers. When a vacancy occurs in the membership there always are applications in waiting. An applicant first has to be passed upon by the brokers. and then, if approved, the name goes before the foreign bankers, association, without whose approval a broker cannot be received into the association. Brokers, who deal on a commission of 1/8 of one percent are not permitted to speculate on exchange, and are called upon by the banks to guarantee contracts when they smack of speculation.

The foreign brokers are permitted to deal only between members of the foreign bankers' association and commercial firms or individuals. Since the Chinese banks are not members of the foreign bankers' association the foreign brokers cannot treat with them as banks. This brings up an interesting relation. A member of the brokers' association cannot put through a deal with a Chinese bank on one end and a commercial house on the other, but is permitted to consider the Chinese bank as a firm and deal with it accordingly. For instance a foreign broker, although he would not be permitted to handle an exchange transaction between a commercial house and a Chinese bank, could negotiate a deal with a Chinese bank at one end and a foreign bank at the other. In this case the Chinese bank would bear the relation to the deal that a commercial house ordinarily would have.

Persons identified with big business in Shanghai, generally speaking, are well informed on exchange. They know something of the factors directing the course of exchange rates. Occasionally one hears charges that rates are manipulated by exchange banks for their own profit, but the extent to which this is done, or to which it even is possible, is small. Banks in China cannot influence the rate to any great degree and cannot influence movements appreciably for any length of time. Temporary manipulations to a very limited extent are possible, but the reputable banks and brokers realize the adverse reaction that would be sure to result if they abused what little power they do have in this connection. Generally speaking the rates are determined by natural causes, although complicated they are, subject to rapid and radical changes, a part of which are due to the element of speculation already referred to, an element over which banks can have little influence. Formerly the exchange banks were able to exert a greater influence and control over rates. Competition now helps to deny any one bank or group of banks extensive powers in this direction.

(*Continued on page 86*)

American Banks Taking Their Place in China

(*Continued from page 81*)

charter, to be an international co-operative enterprise. It would allow Chinese banks, manufactuers, exporters and importers to become stockholders along with similar American interests in financing the trade between the two countries. This privilege is of added importance in connection with the possible dealing in Chinese securities, as it would permit Chinese capital to share in the profits arising from the industrial development of their own country.

"American banks, employing their capital largely in exchange operations and being limited by law or by the nature of their exchange or commercial banking transactions to short term loans, have not been in a position to take part in the financing of transactions requiring the longer term of credits which industrial enterprised always require.

"It was the purpose of the organizers of this corporation seeking a charter from the federal government, to furnish China and the other countries of the far east and America, particularly the western states, with a needed banking facility for developing trade between these countries bordering on the Pacific. It was also the intention to furnish American interests generally, and particularly manufacturers, with an opportunity for sharing to a greater extent in the industrial development of the countries of the orient.

"While this Corporation will, like the others which have been organized, operate on the acceptance plan, it will also, where necessary to effect the sale of American products or materials, create a market in this country for Chinese securities by selling the bonds of enterprises which, after thorough investigation by American accountants and engineers, it believes constituted a safe investment for the American public.

"The Federal Pacific Banking Corporation will request permission of the federal reserve board to establish offices in each of the cities on the Pacific coast and branches in China, Japan, the Philippines and other countries of the Orient. It will offer to American banks which become its stockholders the advantages of direct representation through its foreign branches. It will offer them a further outlet for the use of their resources in financing foreign trade through acceptances, since they are now limited to the amount of their capital and surplus. It will also make possible the utilization of their resources in financing a class of business which they are at present unable to handle.

"This bank will be safeguarded in its operations by the strict control and supervision exercised by the Federal Reserve Board. It will not speculate in exchange nor deal even indirectly in commodities. It is not permitted to invest in the stock of trading companies. It is, in a way, like the Federal Reserve Banks, a banker's bank, and its transactions will be conducted to a large extent with National banks and with Federal Reserve Banks.

"The stock of such corporations would, form an attractive investment both for American citizens and Chinese. Their operations should serve to increase considerably the trade between the two countries, and their profits would be shared by the citizens of each. The supervision exercised in the case of China Trade Act Corporations by the Department of Commerce, and in the case of Edge law banks by the Federal Reserve Board should serve as a safeguard and check in their operations, thus assuring the safety of the investment.

"The Corporation would not engage in financial transaction with the Chinese government, since that field is occupied by the International Consortium of which the American Group is a member. The Consortium expressly excluded from its scope of operations, however, the financing of private commercial and industrial undertakings.

"In order to secure the sale of foreign products in China, it is frequently necessary to finance to a greater or less extent, the enterprise which desires to purchase them. Lack of such a financing organization has often been the cause of the loss of a possible sale. While the large manufacturing or exporting concerns are frequently able to do the financing themselves, yet that is not the proper function of a producing or trading concern. Smaller exporters and manufacturers, of course, have not the capital to do any financing. Hence the necessity for some machinery, such as the Edge Act supplies, to supply this need, if the trade between American and Far Eastern countries is to develop as it should."

American Business Suffers

The advantages of adequate banking facilities are more thoroughly appreciated when one recalls that many times Americans have lost out in competition with other nationals in China because the Americans were unable to handle the finances. This is particularly true as regard contracts for railway construction. Tyler Dennett in "Americans in Eastern Asia" says, "Out of an estimated total of 7,500 miles of railway concessions granted before December 1, 1898 the Americans had actually accepted or secured only 300 miles. They had lost several times as much through inability to provide capital on acceptable terms." Mr. Dennett mentions several cases in which this actually occurred.

Several attempts were made to organize American banks, but without success. In discussing railway contracts Mr. Dennett, mentions efforts to organize an American bank in 1887. The following paragraph is quoted from his "Americans in Eastern Asia":

"The year 1887 was one of great activity among the foreign investors. A Chinese-American bank was projected. This was supported by the so-called Philadelphia syndicate and received the approval of Li Hung Chang. It was proposed to loan the government 80,000,000 taels to finance railway construction, and to organize a mint. The same interests also secured extensive concessions including the right to install telephone systems. The Yamen refused to ratify the agreement, and although efforts were made subsequently to revive the scheme nothing ever came of it. It is quite probable that it had been from the outset more of a promoters, than an investors' proposition."

Exchange Rates Fluctuate When Speculation Influences Market

(*Continued from page 84*)

Some years ago exchange banking was almost entirely in the hands of British banks, the Hongkong and Shanghai Banking Corporation wielding the greatest influence and occupying the central position. Americans and others now share liberally in the business. The exchange banks of Shanghai today are:

Chartered Bank of India, Australia and China (British), Hongkong and Shanghai Banking Corporation (British), Mercantile Bank of India, Ltd. (British), Russo-Asiatic Bank (Formerly Russian, now French registry), Yokohama Specie Bank Ltd. (Japanese), Banque de l'Indo-China (French), International Banking Corporation (American), Banque Belge pour l' Etranger (Belgian), Netherlands Trading Society (Dutch), Bank of Taiwan Ltd. (Japanese), Sumitomo Bank Ltd. (Japanese), Mitsui Bank Ltd. (Japanese), Mitsubishi Bank Ltd. (Japanese), Bank of Chosen (Japanese), Asia Banking Corporation (American), Nederlandsch Indische Handelsbank (Dutch), Sino-Italian Bank (Italian), Equitable Eastern Banking Corporation (American), American Express Co. (American), P. & O. Banking Corporation Ltd. (British), Societe Francaise de Gerance de la Banque Industrielle de Chine (French).

Sir Charles Addis, manager of the Hongkong and Shanghai Banking Corporation and a member of the board of directors of the Bank of England, once delivered an address in Shanghai, reducing a discussion of exchange to language that laymen could understand. From this address, which was printed in pamphlet form, the following paragraphs are quoted:

Invisible Exports

"The first element is one of which we have heard so much of late—exports must pay for imports. The economist would prefer to express this as the 'tendency to equivalence of indebtedness,' but the popular term will serve our purpose well enough, so long as we are careful to define what we mean by exports. If we take the trade returns we shall find what appears to be a direct contradiction of this theory, the annual imports into China having considerably exceeded the exports for many years past. As it is, to say the least of it, extremely unlikely that these surplus imports have been supplied by foreign nations out of sheer goodness of heart, we are driven to cast about for some other explanation. We find it, in part at least, in those 'invisible exports,' to use Sir Robert Giffen's happy description, which find no place in statistical returns. There is, for example, the heavy annual remittances made to this country by Chinese residents abroad. The statistical secretary of the Chinese maritime customs estimated that as much as twenty millions of gold dollars were remitted annually in this way from California alone. From this point of view, Chinese labour is one of the chief exports of the country.

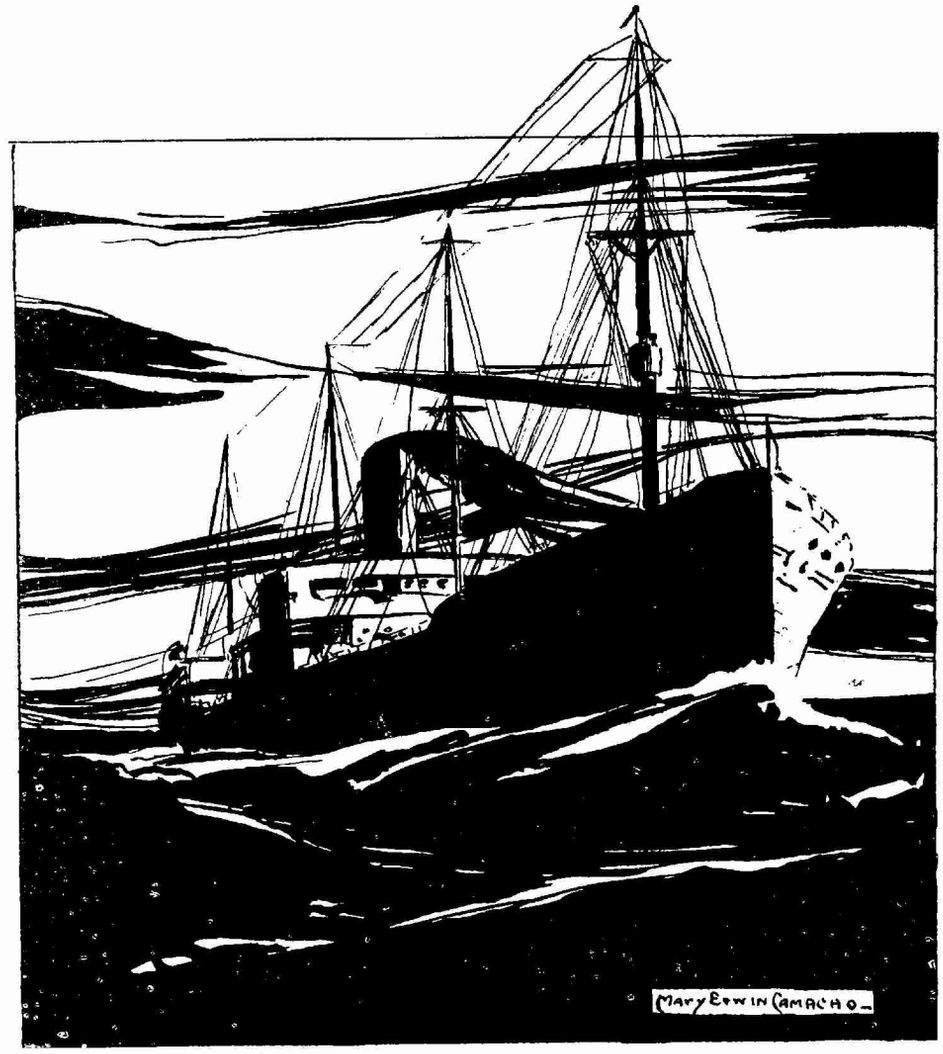
"Then there is what may be called the 'missionary tribute.' There are some 3,000 Protestant missionaries in China. If we allow for salaries, family expenses, upkeep of houses, hospitals, schools, etc., an annual expenditure of £300 per missionary, or, say, £1,000,000 in all, is probably not very wide of the mark, while the Roman Catholic missions must account for at least as much more. Again, in adding up our exports, account must be taken of foreign loans. We may look upon these in the first instance as an export of Chinese bonds, not forgetting that the coupons will have to be added to our list of imports at a later stage. I mention these as examples of invisible exports which might not readily occur to you. Others, more obvious, will easily suggest themselves, such as freights, commissions, expenses of foreigners living in China, the money spent by various syndicates in their endeavors to open up the resources of the country, foreign naval and military expenditure, and so on. It is, of course, impossible to make an accurate estimate of these invisible exports, but even the enumeration of them goes far to establish the theory and to prove that China is no more exempt than other nations from the law that if a man does not sell neither shall he buy. Imports can only be obtained in exchange for exports.

The Balance of Trade

"It will, I hope, be evident from what I have said that the point of real importance to the solvency of a country is not the volume of either its exports or its imports, but the balance between the two. I have had a word to say about 'invisible exports.' Let us now glance at the question of 'invisible imports.' Chief among these are the annual payments of interest and installments of principle on Chinese foreign loans. Roughly speaking, these loans amount to about £120,000,000 or, say, six shillings per head of the population. Compare New Zealand with £63 per head, or New South Wales with £48, or the colony of Victoria with £42, and it will be seen at once that China's indebtedness is relatively small. It is only fair to say, however, that the comparison is made with loans which to a large extent return a revenue to the colony which contracted them, while the word "destructive" rather than "productive" would better describe the purposes to which the bulk of Chinese borrowings have been applied. But after all, national wealth, if easily destroyed, is as quickly created and I am inclined to think that the amount of China's foreign indebtedness is not only relatively but absolutely small. It is some times argued that, since imports must be paid for by exports, these foreign payments can only be met by a sudden increase of a corresponding amount in the volume of exports. It is further argued that, China being an agricultural and not an industrial country, such a sudden increase is not to be looked for and that accordingly there is reason to fear lest, pending the necessarily slow development of her natural resources, financial bankruptcy should result. The argument seems to me to be founded upon a fallacy,

"As already pointed out, the real crux of the question is not the volume but the balance of trade. All that is required, so far as solvency is concerned, is an adjustment of the balance of trade. The payment may be made either by an increase in exports, or by a decrease in imports, or by both one and the other. As it takes time to develop the resources of a country, it is probable that in the first instance, at least, the necessary adjustment will be made in China by a relative increase in exports and a relative decrease in imports. In this case, since the foreign trade of China is valued at, say, £60,000,000, while the annual payment on account of interest and amortization of loans amounts to say, £6,000,000, all that is required is an adjustment of not more than 10 percent. If this view be correct, there would seem to be no reason to accept the gloomy forebodings of those

(*Continued on page 88*)



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Exchange Rates Fluctuate When Speculation Influences Market

(*Continued from page 86*)

alarmists who regard a debt of £12,000,000 as an intolerable burden on a lightly taxed country, historically free from any taint of repudiation and with a strong and industrious population of 400,000,000. Nor need we share the apprehensions of those who cannot see how national bankruptcy is to be averted when a trade of over £60,000,000 per annum is called upon to suffer an adjustment of less than 10 percent on its value. Still less need we feel any panic if, as is possible, any delay in the adjustment of the balance of trade should lead to an export of silver.

"In China, silver, as we have seen, is both a commodity and a currency. In the former case it is at the best a luxury which the country is no longer in a position to support. Surely it is no matter for regret to see it disgorged from useless hoards and set free to perform its proper function in assisting, along with other commodities, to defray the national indebtedness. But suppose the silver exported is withdrawn from circulation, there is still no cause for alarm. It is an entirely natural process, the effect of which is to reduce prices to the level at which the export of other commodities will again take the place of silver. Nor need we have the slightest fear that the process will be more than temporary, or the effect delayed until the country is denuded of her silver, since every country must retain the quantity of currency required to maintain the normal level of prices. The continued export is a sign that the level is too high. Should it become too low, silver must inevitably flow back until the quantity in circulation is again sufficient to maintain the normal level of prices."

Calculating Exchange Rates

To give readers some idea of the actual calculations involved in determining the rate of exchange in Shanghai and other points in China we again resort to quoting extracts from the chapter on exchange in Julean Arnold's "Commercial Handbook of China," from which we have taken extracts earlier in this article. In quoting from this chapter we are forced to omit parts because space will not permit of use in its entirety, but we give the following paragraphs:

"It is necessary to define first of all what is actually meant by 'exchange quotations.' Many business men who have just begun trade relations with China have doubtless wondered at times what their agent in China meant by informing them that he could not put through a certain deal on account of the exchange; and they have been unable to understand the difficulty, since it involves a factor that probably never crossed their path before—at least not in the case of those whose trade relations have been only with countries possessing a gold standard.

"Exchange quotation" means the expression of the ratio between any one currency in China and any one currency abroad. That is easy enough to understand, but it must be remembered that this ratio has to express the comparative value of two different metals, silver in China and gold abroad, and not only that but also, as in the ordinary case of the internal exchange, has to express those elements that can be easily reckoned (charges, dues, interest, etc.) and those that can only be ascertained by comparison (demand and supply).

Basis

"In the case of the internal exchange one finds the basis of his calculations in the intrinsic value of the different mediums of exchange, while in the case of the international exchange the only basis that can be depended upon in normal times is the so-called 'London silver price' (New York?), or in other words, the price in shillings and pence that one would have to pay for one ounce of silver in London.

London Parity of Silver

"Since it has been explained that a tael is only a weight of silver, to which a notation of fineness is added, it will be easily understood that, when one has the gold price for a certain weight of silver in London (troy ounce) of a known fineness (222/240), it will not be difficult, by going through a few calculations, to find how many shillings and pence it would cost (including, of course, all charges, interest, etc., which can be easily ascertained) to bring to China enough silver, 998 fine, to make up the weight and fineness of any given tael.

"The only question is to select one of the many taels; but, as a matter of fact, that has been done long ago, the unit selected being the Shanghai tael, from which, as will be seen later, all the other quotations for the other treaty ports are derived.

"The silver that comes out to China in bars is weighed on the Canton scale, 579.85 grains troy, and it is sold at the average price of 111.20 Shanghai taels currency per 100 Canton taels weight.

Charges

"The charges in normal times fluctuate between 0.80 and 1 per cent, made up as follows: Freight, about one-half of 1 per cent; insurance, one-sixth of 1 per cent; brokerage, one-eighth of 1 per cent; landing, etc., one-fourth of 1 per cent. For the sake of our calculations we shall take 0.90 per cent.

"We have so far put down all the elements required to find how many shillings and pence will be equal to 1 Shanghai tael; the only element that is missing is the London silver price, but as this is liable to change we shall leave it out of our calculations for the present and shall be satisfied to find the 'constant' which, multiplied by the London silver price, will give the price in shillings and pence of the Shanghai tael.

Formula for Constant

"Here is the formula: How many shillings and pence will be equivalent to 1 Shanghai tael (100 Shanghai taels plus charges 0.90 tael, 100.90 Shanghai taels), if 111.20 Shanghai taels are equal to 100 Canton taels weight and if we know that 1 Canton tael weight is 579.84 grains troy? The London quotation is for standard silver 222/240, but the silver coming out to China is 17½ better or 239½/240, while 1 ounce of 480 grains troy is sold at the London silver price; or, briefly:

	—1 Shanghai tael.
100 Shanghai taels, plus charges	—100.90
111.20 Shanghai taels	—100 Canton taels.
1 Canton tael	—579.84 grains troy.
222 grains standard silver	=239½ grains, 17½ better
1 ounce of 480 grains	=London silver price.
100. 90=579. 84=239½	=1. 182, "constant'."
111. 20=222=480	

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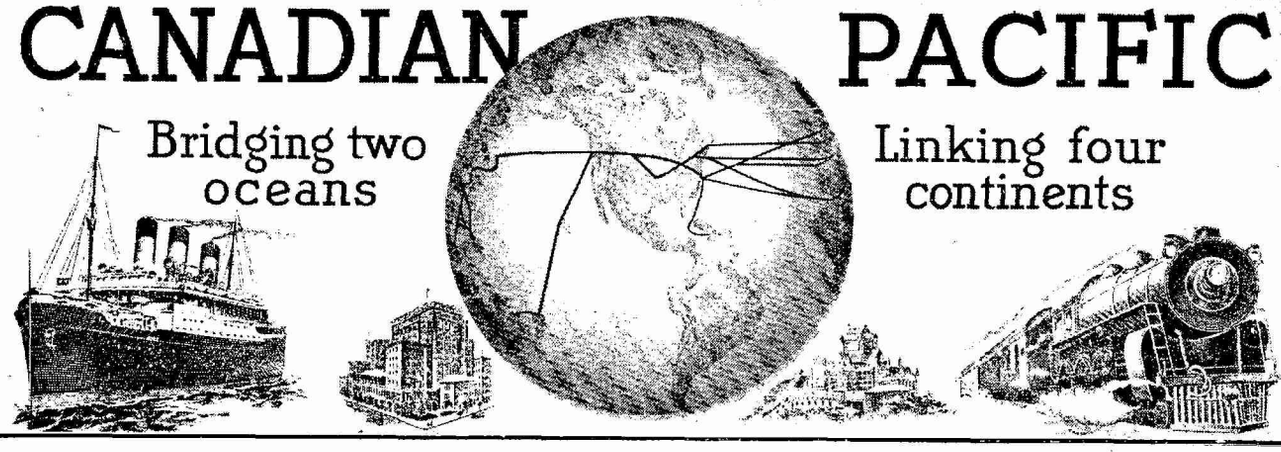

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The Chinese Banks and the Government of China

(*Continued from page 44*)

general of the customs was instructed last year to release the surplus customs revenue from time to time in order to meet the service of the loan. It is very encouraging that there will be more customs revenue realized this year as the collections of the customs duties are to be increased, and therefore there will be sufficient funds to meet the consolidated loan, however, this encouragement is cooled down as soon as the government proposes to appropriate this increased customs surplus for administrative uses. As a consequence of such repeated vasilations of the government on the established priority rights, the diplomatic representatives of four powers sent a joint note to the government last December demanding that a portion of the customs surplus should be specially set aside for their benefit. At the same time, the commission on national financial problems also passed a resolution that the instruction given to the inspector general of the customs to release the customs surplus from time to time to meet the consolidation service be continued. This resolution has been handed over to the cabinet and the ministry of finance for action, but you have entirely ignored it and have taken no action whatever."

"A review of the policies of the ministry of finance dealing with various internal loans is not out of place here. In connection with the ninety-six million dollars loan only two instalments of the foundation funds were released. The payment of the first instalment of interest was made possible through the assistance of several banks. Not only is there no money to redeem the first installment of principal which is already overdue, but the payment of the second instalment of interest is hardly possible as funds for that purpose are not forthcoming. This situation is serious enough, yet it does not bother the ministry of finance at all. With regard to the Peking Octroi treasury notes amounting to $6,000,000, it was originally arranged that a monthly release of $100,000 from the Peking Octroi collections as well as of $120,000 from the collections of duties on the goods transported along the Tientsin-Pukow Railway, would be effected to pay both the principal and interest of the treasury notes in question. The monthly releases from the latter source did come regularly until the amount reached a little over $600,000. An amount of over $1,000,000 was realized from the former source, but now the releases have stopped as the presidential office, the ministry of war and the ministry of education have all claimed that they have the right to draw funds from the Octroi collections. Then again, numerous unsecured advances from various banks, which amount to a total of $3,000 000, and the payment of whose principal and interest have been long overdue, are waiting for adjustment, but no one of the officials in the Ministry cares to touch them. This is the case of the internal loans alone.

"Let us turn to the foreign loans. These are altogether an amount of over $200,000,000 of unsecured foreign loans, and their status is exactly the same as that of the internal loans, that is, no interest. no principal, and no readjustment possibility. The American Wine and Tobacco Loan, which has been defaulted over a year now, does not receive the attention of the ministry of finance as it should receive. Mr. J. J. Abbott of Chicago who has been in Peking for months, waiting for an opportunity to consult with the government officials on their policies towards the above mentioned loan, has not been warmly received by the ministry of finance and whatever answers to his inquires he gets from that ministry are vague and non-committal. The interests of many Japanese loans are overdue, and many times the Japanese creditors have requested for readjustment measures, to which the ministry of finance have repeatedly refused to offer any concrete plan. The joint note from the four legations dated December 23rd, 1922, still remains unanswered. The Japanese portions of the ninety-six million dollars loan, the foundation funds of which have been adequately prepared by the Japanese banks, is another case. When the Japanese creditors asked for particulars about the arrangement of principal redemption drawing, which is now overdue, the ministry of finance again took an indefinite attitude, without giving the necessary instructions requested.

"By disregarding the service of internal loans, the government is not giving protection to the private property of the people as it ought to give, and by defaulting the foreign obligations, the government is destroying its credit abroad, which enjoyed a good standing in the world for a long time. Such being the case, the people will no longer give their co-operation to the government hereafter, and hence the source whence to get money for national administration is shut. Such being the case, the position of China in the family of nations will be lowered again, and the possibility of further loss of financial rights to other nations is in sight.

"In view of the fact that the confidence of the government both at home and abroad is almost totally lost, we beg to present the above facts to you with a sincere hope that you will come to the realisation of their seriousness at an early date. We request that you will give us answers to the following questions as soon as possible so that remedial measures can be introduced to save the situation. These are the questions: How are you going to uphold the original plan of the consolidation loan service? What will be the measures to readjust all the unsecured internal and foreign loans?. When and how will you answer the joint note of the four legations? How will the service of the ninety-six million dollars loan be met? Are there any plans whereby the various government departments can be prevented going to the Peking Octroi Office freely every day to draw its collections?"

There have been, therefore, three periods in the whole history of the relationship between the government and the Chinese bankers, namely, the period of obedience the period of supervision and the period of non-cooperation. We do not know how long this third period will last, but we are sure that in the end the bankers will win the fight for the simple reason that the fight the bankers are making is a righteous one and has the full support of the people. It is now an open secret that the Chinese people are not satisfied with their government, and it has been their ardent desire that a good and clean one should take its place. The surest way of effecting such a change of government is through financial non-cooperation, as the problem of finance is a life and death problem for any government. Until such a change is realized it is not likely that the bankers will change their policy again, and unless the new government will endeavor to protect the interest of the bankers, there will be no improvement in the relationship now existing between the government and bankers.

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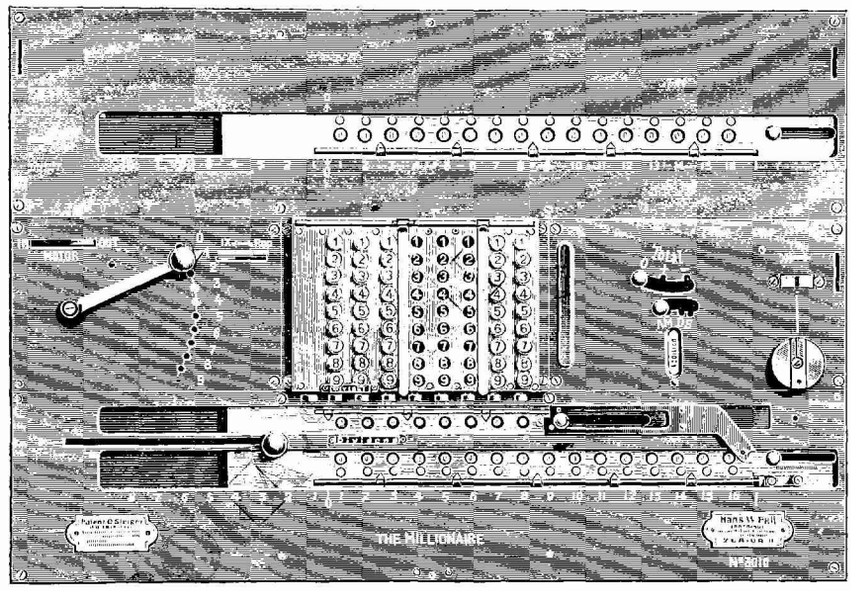

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The Financial Reconstruction of China

(*Continued from page 59*)

to alter the original schedule and to substitute for it a shorter period of amortization. For other loans it may be advisable sometimes to offer bonds redeemable in a longer period. This may facilitate negotiations since the government has no power to impose consolidation and must discuss terms with each creditor.

Taking into consideration the following facts :

(a) that part of the unsecured indebtedness bears interest at less than 8 % ;

(b) that when rates over 8 % were agreed it was on account of the risk involved in lending money to the government without proper securities, and that once adequate security is furnished the excessive rates must be lowered ;

(c) that the capital of some of the debts may be reduced, since it is disproportionate with the amounts actually received by the treasury ; and

(d) that among the unsecured debts are $33,700-000 treasury notes which the holders never expected to be redeemed in full and on which a substantial rebate may be imposed ; it seems that the total unsecured indebtedness of the Chinese government, as it will stand by the end of 1923, may be met by the issue of consolidation bonds to a nominal amount not exceeding 625 million dollars, bearing interest at 7 % per year from October 1st 1923, the first, semi-annual coupon being payable on April 1st 1924.

The calculation is based on the assumption that the commission to which the Washington agreements have entrusted the duty to establish the 2 % customs

Table IV shows how the scheme can work :

Table IV

Table Showing Service of a Consolidation 7% Loan of 625 Million Dollars Nominal Redeemable in Twelve Years from the Surpluses of the Customs Revenue

Year	Available surplus of the Customs	Service of consolidation Loan	Deficit to be met from other sources	Net surplus of Customs
	$ (1)	$	$	$
1923	—6,250,000	10,937,500	17,187,000	.. .. ..
1924	29,500,000	43,750,000	14,250,000	.. .. ..
1925	35,300,000	43,750,000	8,450,000	.. .. ..
1926	36,500,000	43,750,000	7,250,000	.. .. ..
1927	45,850,000	43,750,000	.. .. ..	2,100,000
1928	46,500,000	43,750,000	.. .. ..	2,750,000
1929	52,900,000	43,750,000	.. .. ..	9,650,000
1930	69,000,000	43,750,000	.. .. ..	25,250,000
1931	72,000,000	43,750,000	.. .. ..	28,250,000
1932	75,000,000	77,814,000	2 814 000	.. .. ..
1933	86,500,000	77,814,000	.. .. ..	8,686,000
1934	88,500,000	77,814,000	.. .. ..	10,686,000
1935	91,000,000	77,814,000	.. .. ..	13,186,000
1936	93,000,000	77,814,000	.. .. ..	15,186,000
1937	95,000,000	77,814,000	.. .. ..	17,686,000
1938	100,000,000	77,814,000	.. .. ..	22,186,000
1939	100,000,000	77,814,000	.. .. ..	22,186,000
1940	100,000,000	77,814,000	.. .. ..	22,186,000
1941	108,500,000	77,814,000	.. .. ..	30,686,000
1942	108,500,000	77,814,000	.. .. ..	30,686,000
1943	108,500,000	77,814,000	.. .. ..	30,686,000
1944	116,500,000	nil	.. .. ..	116,500,000
	etc.	nil	.. .. ..	etc.

(1) Deficit

Chinese Government Finances and Debts

(*Continued from page 9*)

General Loans which are not yet paid off may be tabulated as follows :-

Title and Date	*Principal*	*Rate of Interest*	*Amount Outstanding*	*Maturity*	*Security*
Crisp Loan 1912	£ 5,000,000	5 %	£ 5,000,000	1952	Salt Gabelle
Reorganization Lorn 1913	£ 25,000,000	5 %	£ 25,000,000	1960	„ „
British Corporation					Peking-Moukden
Banque Industrial de Chine Industrial Development Loan 1914	Fr. 100,000,000	5 %	Fr. 100,000,000	1964	Receipts from the development works and wine tax of provinces north of Yangtse.
Loan 1914	£ 375,000	5 %	£ 375,000	1934	Ry. Surplus Revenue
Continental Bank of Chicago Loan 1916	G. $ 5,000,000	6 %	G. $ 5,500,000	1921	Wine and Tobacco Revenue
Pacific Development Co. Loan 1919	G. $ 5,500,000	6 %	G. $ 5,500,000	1921	do
War Participation Loan 1918	Y. 20,000,000	7 %	Y. 20,000,000	1920	Treasury Notes.
Mining and Forestry Loan 1918	Y. 30,000,000	7½%	Y. 30,000,000	1928	Mines and Forests of Kirin and Heilungkiang and their revenues.
Telegraph Loan 1918	Y. 20,000,000	8 %	Y. 15,000,000	1923	Telegraph Revenue.
Kirin-Huaining Ry. advance 1918	Y. 10,000,000	7½%	Y. 10,000,000		Treasury Notes
Mongolian and Manchurian Ry. advance 1918	Y. 20,000,000	8 %	Y. 20.000,000		do
Tsinah-Shunten-Kaomih-Hsuchow Ry. advance 1918	Y. 20,000,000	8 %	Y. 20,000,000		do

The last four items should be included under the railway and telegraph loans ; they are here classified as general loans, because their proceeds were appropriated by the Ministry of Finance for general purposes and recognised as such by the said Ministry. Together with the war participation and mining and forestry loans thus aggregating Y. 120,000,000, they constitute the bulk of the famous Japanese loans of 1918, negotiated by Mr. Nishihara under instructions

(*Continued on page 96*)

surtax will meet and reach a decision before the end of the year.

Now, the service of *interest* and *amortization* in *twelve years* of a nominal capital of *625 million dollars* bearing interest at 7 % requires $ 77,814,000 a year.

Interest alone requires $ 43,750,000 a year. If it is to run from October 1923 the charge for the year 1923 will be $10,937,500.

From Table III it appears that amortization can not begin prior to 1932, the surpluses from 1923 till 1931 being sufficient to pay interest only.

Some persons may think that the above figures are too optimistic. We believe them to be rather conservative. It must be noted for instance that the charges in sterling have been reckoned at ten dollars to the pound. If the present rate under nine dollars maintains as an average during the current year, the sterling charges in 1923 will amount to $ 52,000,000 instead of the tabulated $ 58,000,000, a decrease of $ 6,000,000 which will almost entirely wipe out the initial deficit of $ 6,250,000. There is also a probability that the full 5 % and the 2 ½ surtax will bring in more revenue than anticipated.

Anyway, taking the figures in table IV as they stand, the question is to find security for the adverse balances of the years 1923-1926, that is to say in round figures for :

$ 17,000,000	in 1923
$ 14,000,000	in 1924
$ 8,500,000	in 1925
$ 7,250,000	in 1926

If the consolidation scheme is executed all the present indebtedness will be included in it, and consequently all the pledged revenues other than the customs will be freed from charges. More particularly, there will be no more claims over the surpluses of the gabelle. It seems then that the said surpluses could be given as additional guarantee for such a period of time as deemed necessary. A maximum of 1,500,000 dollars per month from October 1923 to June 1925 and one million from July 1925 till the end of 1926 would be sufficient. If the government would like better to keep the salt surpluses free of charges so as to be able to dispose of them, no doubt that an arrangement with the Chinese and foreign banks may be devised to that effect. Once a sound scheme for a 625 millions consolidation has been agreed upon, there ought to be no difficulty in finding some equitable adjustment for the deficit of the 1923-1926 period, inasmuch as the said deficit will probably be much less in fact than tabulated in table IV.

A method for meeting the possible 1923 deficit would be to have interest on the new bonds running only from January 1924, the nominal capital being proportionately increased. The government might also consider the advisability of altering the amortization tables of the *National Consolidated Debt Service* created in 1921. A two years postponement of the redemption of some of the loans included in that service might easily procure a balance of two or three millions a year in 1924 and 1925.

Main Characteristics of Proposed Scheme

1. No distinction is made in the scheme between the domestic and the foreign indebtedness. The idea is to treat all creditors of the Chinese government alike and give them the same reliable security, whether they are Chinese citizens or firms, or nationals of foreign powers. It is a question of fairness and justice. It is also to the best interest of the country. The purpose of the consolidation is to restore China's credit. Such credit would not be restored if part of the indebtedness of the Chinese government would remain unsecured, or unpaid, or irregularly paid. It has become essential for the Chinese government that the investing public should make no distinction between China's internal and external credit, the external credit being considered as sound and the internal credit as bad or doubtful. When part of the credit of a country is doubtful, the whole of such credit is affected thereby. The Chinese government must look forward for the time when they will be able to borrow money without having to give specific sources of revenue as guarantee. The first step towards such progress is the regular and punctual performance of *all Government obligations.*

2. The effect of the consolidation when completed, will be to substitute the customs revenue and the salt revenue for all the other pledged revenues. There will be no more foreign or domestic charges on the wine and tobacco tax, on the stamp duty, on the octroi, on the title deeds tax, etc. The Chinese government will recover full rights over these various sources of revenue. Besides, the salt revenue will be pledged only for a few years and for a comparatively small amount. All the present creditors being satisfied, the Ministry of Finance shall not be any more pressed by their incessant demands for funds, and may devote its time and energy to the study of the most important financial problems.

3. A necessary condition for the success of any consolidation scheme based on the Customs Revenue is that all the *net revenue* after payment of the expenditure of the customs administration be appropriated by preference for the service of the consolidation bonds. No other expenditure to take precedence over the payment of interest and amortization of the said bonds. Consequently, the appropriations which have already been granted for the Wai Chiao Pou and for other such government departments, or which may be granted in future shall be paid only on the surplus remaining *after* payment of the interest and amortization of the consolidation bonds. If government expenditure of whatever sort were allowed to take precedence over the consolidation bonds, the security of these bonds would be impaired, and the whole scheme would fail.

Since however the result of consolidation would be to put most of the Salt surpluses at the disposal of the government, the said expenditure might be made payable by preference from the said surpluses.

4. In connection with the above remark, it must be noted that "appropriations" out of the increase resulting from the full 5% tariff or out of the increase resulting from the 2% surtax are not feasible. No separate accounts of the increase are to be kept by the Customs administration. The proceeds of the old tariff and of the increased tariffs are to be received in one single account since they are to be paid by the importers in a lump sum. A merchant who imports in 1924 articles valued $1000 will not be charged by the customs $35 for the old tariff, plus $15 for the full 5%, plus $25 for the 2% surtax. He will be charged $75 odd and the entry in the books of the customs will be an entry for $75. No subdistinctions will be made in the accounts and it will be impossible to charge in the accounts a particular expense to a particular portion of the revenue.

5. The question of a future increase of the tariff up to 12½% as compensation for the abolition of *likin* has been entirely left out of the present memorandum. The suppression of the *likin* cannot be carried out until the relations between the central government and eht

provinces have been clearly defined and an agreement has been reached as to which revenue shall belong to the government and which to the provinces. Besides, it is admitted that the increase up to 12½% will only compensate for the losses resulting from the suppression of the *likin*. The reform is not intended to procure additional revenue to the state and cannot be used for purposes of consolidation.

6. The question of the unpaid railway loans has also been left out of the memorandum because these loans are secured on the railways themselves with additional specific guarantees and because their service may be met from the railway receipts.

Is China on the Verge of Bankruptcy?

(*Continued from page 6*)

All the other loans should be treated as another unit. I am not going into figures in my discourse, although in my suggestions for a scheme of financial reconstruction I shall be guided by them. Of the total amount of indebtedness under this unit, some 500 million silver dollars (figures as if on Sept. 1922) is unsecured. This includes all domestic and foreign loans of all kinds and descriptions. To this will have to be added such railway loans that have not gone into railway construction at all, estimated at $100,000,000. I am strongly in favor of using the customs revenues as the security for them. The scheme suggested by Mr. Padoux seems to me to be sound, although some modifications will be found necessary. By counting upon the increase, say, beginning from 1924, of the import tariff from 5% to 7 ½% for ordinary goods and to 10% for luxuries and for steady increase in trade, Mr. Padoux estimates that by 1944, the whole indebtedness which he placed at the nominal amount of 625 million silver dollars can be wiped out. He has apparently forgotten to consider that China is entitled to raise the tariff eventually to 12 ½% for ordinary goods and probably 15% or more for luxuries with the abolition of *likin* as a condition.

Likin Must Be Abolished

China must abolish *likin*, and it is possible. A very small portion of the *likin*, if any at all, now-a-days comes into the national treasury. The military commanders in the provinces will no doubt object to the cutting off of this revenue, but when the provinces are given a wide berth in the means of securing revenue as suggested in my program and when the armies are reduced and paid for by the Central government, their objection must give way especially in face of the cry of the people as well as foreign merchants in China for the abolition of *likin*.

In the carrying out of a scheme of consolidation of China's debts, I am in favor of a Special Commission to be appointed by the government with full powers to act. This Commission shall consist of experts, among whom shall be Chinese bankers as well as foreign financial experts to be employed by the Chinese government. It has many advantages among which may be mentioned, first, continuity in policy; secondly, taking the people into confidence; thirdly, the advantage of having the experience of foreign experts; and fourthly, free from political entanglements and turmoil.

For the administrative expenses of the government we must rely upon the revenues from the Salt Gabelle, stamp, wine and tobacco, postal and telegraphic administrations. I see vast possibilities in increasing revenues from these sources without burdening the people. Besides, by the carrying out of such a consolidation scheme, all the pledged revenues other than the customs will be released for administrative expenses. I would go further by requesting such foreign governments that have not agreed to return the remaining portions of the so-called Boxer Indemnity to do so. The time is ripe for a general move along this line. Money thus released can be applied to the education of the people—an example so well set by the American government and now being favorably, considered by the other friendly Powers.

Uniformity Is Imperative

Whichever consolidation scheme is to be adopted, it is essential for the nation to evolve a more uniform systematic and scientific system of taxation. As has been demonstrated at the outset of this article, our burden in taxation indeed is very light—it is no more than $1.20 (silver) per capita per year. Yet our people not only seem but are really poor. Famine, plague, disease and ravages of fratricidal warfare pay their visits upon this land much too often, keeping the people in constant fear of facing want, sickness, starvation and death! If we only would spend a fair portion of our revenue on the prevention of these curses, improve the means of communications, and bring knowledge and education to the people, their earning capacity would be so increased that the per capita taxation could be easily doubled or even trebled. Surely China is by no means on the verge of bankruptcy. What she needs is the determination of her leaders to compose their differences, revive the balance of power between the provinces and the Central government, convert the superfluous bandit-soldiers into industrial workers, put her finance on a sound basis, evolve a system of more equitable taxation, spend more money for the welfare and enlightenment of the people, and work together for a higher idealism, then she shall be entitled to be one of the greatest and richest nations of the world.

Another View on Consolidation

(*Continued from page 16*)

To cover the deficits in the early years, M. Padoux proposes several steps,—capitalization of interest, reducing the capital of some of the indebtedness because disproportionate to the amounts actually received by the governments (which makes one think of Tung Kang), cutting out amortization payments for a time on the internal consolidated bonds of 1921, etc. Any one of these proposals means great difficulty in accomplishment, to say the least.

I venture to predict, in closing this brief comment on M. Padoux' good work, that if when the Special Conference convenes the military lords are still seizing railroad revenue, leaving overdue and current railroad debts and charges unpaid and are still getting money from Peking derived from other than railroad sources, thus compelling the Peking government to get deeper and deeper into debt, then M. Padoux's plan will need to be materially altered before it will look good to the Special Conference and to creditors concerned.

Every reform in China, every plan for the correction of her financial condition, depends on disbandment; and the latter depends on how far public opinion asserts itself. *It is most important to China that substantial progress in disbandment be made before the Special Conference convenes.* That body will have power to impose any conditions it sees fit to the going into effect of the customs surtax.

China's Copper Currency and Its Debasement

(*Continued from page 57*)

ment authority, has succeeded in maintaining comparative stability. It is not easy to determine all the factors that have contributed to this stability. Bad coins have probably been excluded from the market, and the note issue and smuggling kept in check.

In some areas where there has been constant unrest, such as parts of Honan, the people refuse to accept notes at all. In others, where attempts have been made to force very inferior coins on the market, the people have been strong enough to restrict their circulation to one or two in each *tiao* or in each dollar. The evidence seems to indicate that the people, left to themselves, can exercise a certain influence in stabilizing exchange provided that they are free from direct military pressure. The figures show that depreciation has been unusually marked at Hankow and Changsha, towns which are in close touch with mints issuing practically unlimited supplies of copper coins, supplemented by an excessive and unbacked note issue.

The *causes of depreciation* appear to be mainly debasement, uncontrolled and unlimited minting, the unlimited number of coppers permissible in any one transaction (a number restricted to one dollar's worth under the currency law), an uncontrolled note issue, smuggling and speculation. Fluctuations in the price of copper have no doubt had a marked effect also, but that is a question distinct from the *debasement* with which this resolution deals. I have not the necessary figures to deal fully with that issue, but it is interesting to notice that the intrinsic value of a standard copper coin today, taking into consideration the price of copper, of silver and of gold, should be about 170 to the dollar. That is the present rate at Ningpo. It is the same intrinsic value as was assessed by Mr. McColl in 1921, when Shanghai exchange stood at only 144 to the dollar. This seems to show that in a free market the copper coin now tends to circulate at its intrinsic value, as metal pure and simple.

I am not convinced on the evidence that there is a *superfluity* of coppers on the market, or the copper notes would hardly be accepted as freely as they are. The real hardship to the people is caused not by the cheapness of the copper coin—it does not seem to matter whether a dollar exchanges for 100 or 200 coppers—but by the fluctuation and uncertainty of the value of the copper coin in its relation to commodities.

I have tried to marshal such evidence as I have been able to gather, and to place the facts before you, in order to demonstrate the extent to which trade and the consumer are handicapped by the debasement and lack of uniformity in the copper currency. It is not easy to suggest a remedy. The copper coin will always be affected by the price of copper until it becomes a real token coin. The situation would certainly be improved if a currency law could be enforced, maintaining a recognized standard of weight and fineness in all the mints, and maintaining control over the note issues. Such control of course could only be established by a strong government authority.

We may have to wait some time for the fundamental reforms necessary to establish a regular copper currency. But in the meanwhile a great deal could be done by organized public opinion to prevent the present abuse of the mints.

Chinese Finances Since the Washington Conference

(*Continued from page 80*)

with the Peking government and considered themselves a part of it. The result was that for centuries the authority of the central government was tolerably maintained and taxes flowed steadily to Peking while at the same time the provincial demand for local self-government was reasonably satisfied.

The Hope of China

The supreme hope of China is in her steady, patient honest, industrious, toiling, thrifty population. They deserve and they will one day have a worthy government. Democratic government, however, rests on public opinion and public opinion to be worth anything must be intelligent. Unfortunately the over whelming majority of the masses of China are illiterate and so absorbed in the problem of earning a livelihood and averting starvation that they have neither the time nor the inclination to think of the problems of government. But the Chinese people have always accepted the leadership of the educated classes. On these classes therefore rests the vast responsibility of the present time. I am thinking not only of the educators and the students and graduates of Chinese and foreign colleges and universities, but also of the merchants and traders, the bankers and financiers, who with less book knowledge have a larger practical experience. These groups along with the country gentry are the natural leaders of China, and it is to them we must look for the establishment of an effective and stable national government, with a readjustment of the relations between the provinces and the central government on such a basis as will make the national government supreme in national affairs and secure to it the national revenues collected in the provinces. If such a system of stable and affective government could be put into operation even in the portion of China which is now nominally under the jurisdiction of the Peking government the results would, I have no doubt, commend the system to the independent or semi-independent provinces who would gradually renew their allegiance to their mother country and again incorporate themselves in the great historic state of China.

The people of China have before them a colossal task. I cannot too emphatically express the view that the task is exclusively theirs. Foreign nations can be of assistance only by manifestations of good will and by rendering such specific service as China may ask of them.

This has always been the attitude of the United States towards China. We have seized no Chinese territory, we have sought no monopolies or exclusive privileges, we have essayed no intervention in the politics or government of China. Besides the pursuit of policies of common interest—like the Open Door, for example—our part has always been that of the benevolent and disinterested helper of China. A warm friendship between the two governments and peoples has been built on that solid foundation of community of interest and altruistic service. The American people and the American government earnestly desire—I may truthfully say that millions of them devoutly pray—that this friendship may grow in depth, in intensity, in unalloyed sincerity and cordiality. There is nothing, I am confident, which the American nation ranks higher in China except indeed the jewel of its own soul.—I mean justice, the inviolability of the lives and lawful rights of its citizens, and its national dignity and self-respect.

Chinese Government Finances and Debts

(*Continued from page 92*)

of the Terachi Cabinet whose policy it was to give financial support to General Tuan Chi-jui who was then in power.

4. German and Austrian loans the repayment of which has been deferred:—

Title and Date	*Due Date*	*Deferred Amount*	*Rate of Interest*	*Security*
(a) *German*				
Vulcan Works for ships supplied	1918—Dec. 31	£102,000	8%	Treasury Notes.
Siemens Works for Wireless Telegraph Stations	1917-July 10	16,610 (Peking Tls.)	none	do
Carlowitz & Co. for Ammunitions	1914-May	Marks 4,481,185 16	8%	do
Diederichsen & Co.	Outstanding 31,Dec.,1921	Sh.Tls. 133,309.71	10%	do
Shanghai Arsenal Alcohol Supplies	1916-Oct. 31	Sh.Tls. 3,607,42	7%	none
Arnhold Karberg & Co. for advance to Chihli Commercial Guarantee Bank	Outstanding on Sept. 30, 1921	Tientsin Tls.	none	Treasury Notes
(*b*) *Austrian* Arnhold Karberg First Loan 1923.	1917-Dec. 31	£ 60,000	6%	P'ing Octroi
Arnhold Karberg Second Loan 1912	1919-Dec. 31	£ 240,000	6%	,,
Arnhold Karberg Third Loan 1913	1917-Dec. 31	£ 200,000	6%	Title Deed Tax
First Austrian Loan 1913	1917-Dec. 31	£ 800,000	6%	Title Deed Tax
Second Austrian Loan 1913	1917-Dec. 31	£ 1,333,500	6%	Title Deed Tax
Third Austrian Loan 1914	1917-Dec. 31	£ 333,500	6%	Title Deed Tax
Austrian Loan Extension 1915	1919-Dec. 31	£ 1,233,000	8%	Title Deed Tax
Austrian Loans Interests deferred	1917-May 31	£ 66 314-10-8	9% p.m.	Treasury Notes

In November 1922, the ministry of finance negotiated with the successors of the original Austrian creditors to have the Austrian Loans settled by consolidating and converting them into a new loan of £5,777,190 to be issued at 90. The matter was made a political issue: Mr. Lo Wan-kan, the minister of finance, was arrested and the cabinet fell as a consequence.

5. Railway and Telegraph Loans.

These will be dealt with in the next section.

6. Short Term Loans and advance.

Up to the end of September last, there were under this heading 67 items of varying amounts, maturing at different periods and bearing interest from 5% per annum to 13% per month. The main purposes for which they were advanced may be classified as (1) Payment for Ammunitions, æroplanes, wireless stations, etc., (2) maintenance of Chinese students studying abroad, (3) interest payment in arrears and (4) advances on loan contracts. The security in each case is of more or less doubtful value, some, as treasury notes, having no intrinsic value at all. Divided according to the nationality of the creditor, we have the following table:—

Nationality	*Amount Outstanding*		
British	£ 2,598 200	Peking Tls. 213,000	$ 1,200,000
French	£ 72,968-3-3	Fr. 64,911,325.59	Tientsin Tls. 860,083,75
	$ 634,600.65		
American	G. $1 252. 925,98	$83,000	
Danish	G. $85,771.84		
Belgian	£10,416,-3-10	Fr. 10,000	$80,000
Dutch	Tientsin Tls.	459,204.50	
Russian	$886.904 54		
Japanese	Y.47.406,102.69	$1,579,866.12	
Italian	£79,500		

Excluding railway and telegraph loans properly so-called, we may summarize the Chinese government's foreign debts as follows:—

Classification	*Amount equivalent in dollars (Chinese)*
Boxer Indemnity	$ 600 251 457.57
War Loans	176 533 117i85
General Loans	354,200.000.00
German and Austrian Loans	36 361.573.01
Short Term Loans and advances	82,732,251.80
Total	$1,249,878,400.23

Domestic Loans

The Chinese government's domestic or internal debts may be classified as follows:—

1. Domestic Loans directly administered by the inspector general of customs,
2. "Consolidated" Loans,
3. "Consolidated" Loans, Second Series.
4. Tenth year 8% Bonds.
5. Short Term Loans passed by the Commission for the Redemption of Domestic and Foreign Short Term Debts.
6. Short Term Loans from Banks and others.
7. Treasury Notes.

1. Domestic Loans directly administered by the inspector general of customs:—

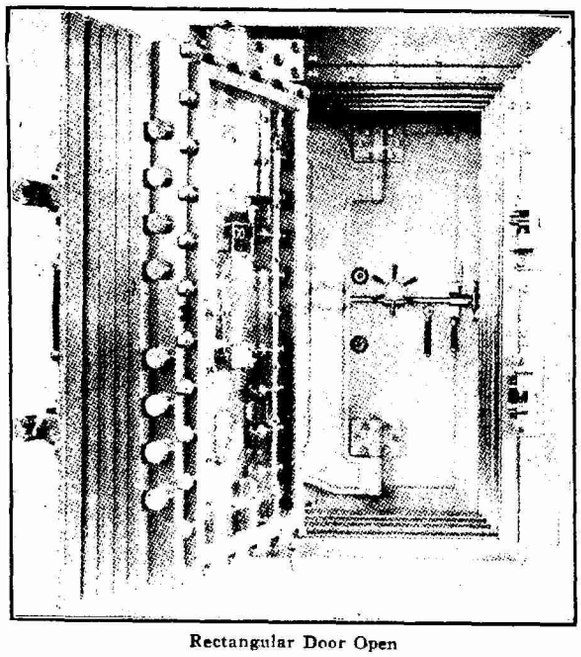
Title and Date	*Principal*	*Rate of Interest*	*Amount Outstanding*	*Maturity*	*Security*
Third Year Loan 1914	$25,926,110	6%	$13,939,095	1925	(1) Native Customs (2) Deferred Russian and German Portions of Boxer Indemnity (3) Customs surplus.
Fourth Year Loan 1915	25,829,965	6%	4,638,740	1923	,,
Seventh Year Short Term Loan 1918	48,000,000	6%	4,800,000	1922	Deferred Payments of Boxer Indemnity.
Eleventh year Short Term Loan 1922	10,000,000	8%	10,000,000	1927	Deferred Russian Indemnity.

2. Consolidated Loans.

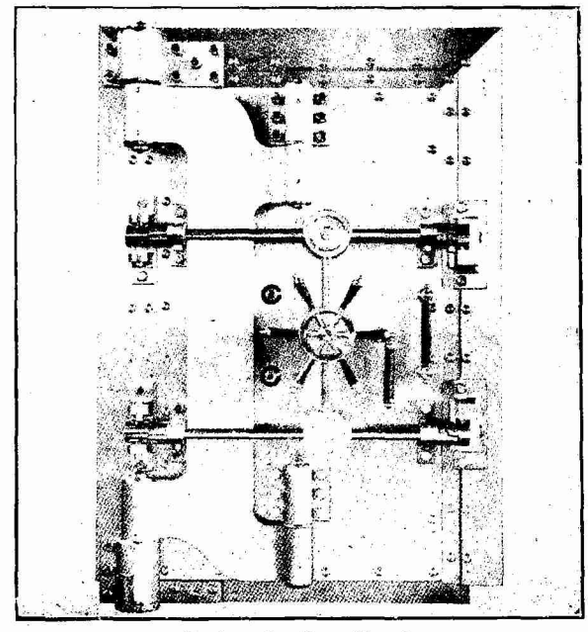
These loans are so called because they were either specially issued under the Consolidation Plan of 1921 or have been taken over by the internal debts consolidation service. The money for the payment of interest and redemption of such loans, amounting to an annual sum of about $24,000,000, was provided to come from several sources, viz, (a) customs surplus, (b) salt surplus, (c) wine and tobacco revenue, (d) operating profits of the ministry of Communications, and (e) increment in customs revenue. But since the operation of the plan the burden has mainly fallen on the customs surplus, while no money has yet been received from the wine and tobacco revenue. We tabulate these loans as follows:—

Title and Date	*Principal*	*Rate of Interest*	*Amount outstanding*	*Maturity*	*Service*
8% Military Loan 1912	$ 7,371,150	8%	$ 1,771,150	1924	Consolidated

(*Continued on page 98*)



Rectangular Door Open



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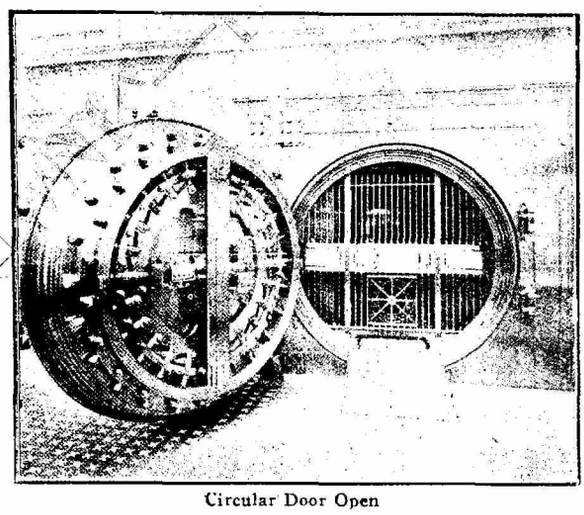
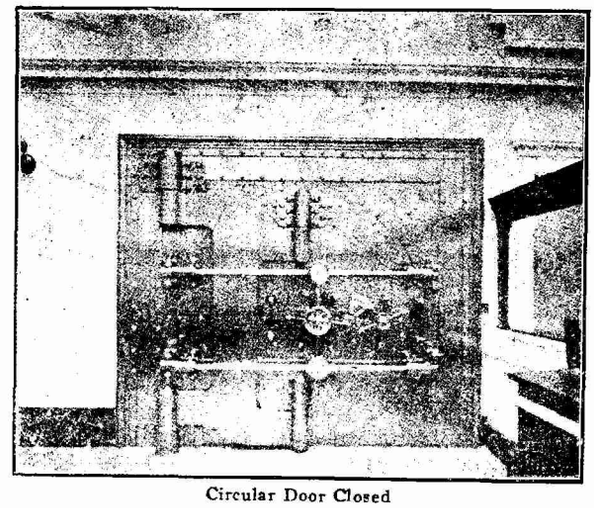


Circular Door Open



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25-301

Chinese Government Finances and Debts

(*Continued from page 96*)

7% Consolidated Loan 1921	54,392,228	6%	51,672,617	1930	,,
7% Consolidated Loan 1921	13,600,000	7%	12,240,000	1930	,,
Fifth Year Loan 1916	20,000,000	9%	18,757,590	1929	Interest from Consolidated Service Redemption from sinking fund for 3rd and 4th year loans.
Seventh Year Long Term loan 1918	45 000,000	6%	45,000,000	1937	,,
Financial Reorganization Loan 1921	60,000,000	6%	45,590,400	1926	Consolidated

3. Consolidated Loans, Second Series.

Title and Date	*Principal*	*Rate of Interest*	*Amount outstanding*	*Maturity*	*Service*
First Year Consolidated Second Series	$25,600,000	6%	$25,600,000	1935	Interest payment from wine and tobacco revenue annually $2,200 000. For redemption, to be included in consolidation plan.
Eighth Year Consolidated Second series	8,800,000	7%	8,800,000	1935	,,

As no money was received from the wine and tobacco revenue, interest payment on these loans has not yet commenced. Their service is practically unprovided.

4. Tenth Year 8% Bonds (or the 96 million loan as popularly known on account of its amount) stands by itself.

Its interest payment and redemption were provided to come from the salt surplus, to be changed into customs surplus when the effective 5% tariff operates. The plan has, however, not yet been carried out, and its first drawing for redemption and second interest payment did not take place on due date.

5. Short Term Loans by the Commission for the Redemption of Domestic and Foreign Short Term Debts:—

Under this heading, there were 106 items, borrowed from different banks and financial syndicates, chiefly in 1921 and secured upon salt surplus. The amounts recognized by the Commission aggregated to $58,607.669.27. $35,103 724.20 were paid off by Tenth Year 8% Bonds at an arbitary price of 84, leaving the unpaid balance at $23,503.945 07.

6. Short Term Loans from Banks and Others:—

These differ from the preceeding category in that they were not secured upon salt surplus or for some other reason did not come into the orbit of the Commission. They include 54 items, maturing at different periods and bearing interest varying from 5% per annum to 18% per month. The outstanding amount under this heading totalled $40,890,185.70.

7. Treasury Notes.

They were originally issued in payment of purchases or to meet other obligations, some without interest, but mostly bearing 6%. There are 60 items and their outstanding balances amount to $33.767.581.68.

We can now summarise Chinese government's domestics debts as follows:—

Classification	*Amount Outstanding*
Domestic Loans directly administered by the Inspector-General of Customs.	$ 33,377,835.00
Consolidated Loans	205,031,757 00
Consolidated Loans Second Series	34,400,000.00
Tenth Year 8% Bonds	96,000,000.00
Short Terms Passed by the Commission, etc.	23,503,945.07
Short Term Loans from Banks and Others	40,890.185.70
Treasury Notes	33,767,581.68
Total	$ 466.971 304 45

The Question of China's Unsecured Debts

The total amount of China's unsecured debts, with interest calculated up to the end of 1922, was officially estimated in October last at $488,940,000 as follows:—

Item	*Principal*	*Interest*	*Principal and Interest*
(1) Unsecured Foreign Debts.	$220 930,000	$ 19,000,000	$239,930.000
(2) Unsecured Domestic Loans	34,400,000	2,160 000	26,560,000
(3) Tenth Year 8% Bonds	96,000.000	——	96 000,000
(4) Short Term Loans Passed	23,500,000	11,000,000	34,500,000
(5) Short Term Loans from Banks	40,890,000	7,360,000	48,250,000
(6) Treasury Notes	33 700,000	——	33,700,000
Total	$449,420,000	$ 39,520,000	$488,940,000

The first item is composed of the foreign general loans (excepting crisp and reorganization loans) and short term foreign loans and advances as described in our section 5 and the second item in the consolidated domestic loans second series.

In his memorandum published in January last, Mr. G. Padoux, adviser to the Chinese government objected to the rates of conversion employed by the government for pounds sterling and yen at $8 and $0.86 respectively as being too low and, readjusting the official statement, estimated China's unsecured debts in June 1923 as $569,396,000:—

	Principal		
	Debts in silver dollars or taels reduced to silver dollars		$234,588,000
Debts in Sterling	£ 3,136,000		
Plus Austrian Loans	£ 5 200.000		
Total	£ 8 336,000	@ £1=$9	75 024,000
Debts in Francs	Fr. 167,500.000	,, Fr.7=$1	23 927,000
Debts in Yens	Y. 162,655,000	,, Y1=$0.90	146 389,000
G $	G.$ 13,352,000	,, G$1=$1.90	23.468.000
Total			$503,396,000
	Interest		
Interest up to December 31, 1922			$41,000.000
Interest from January to June 1923			25 000,000
Total			$66 000,000
			$569,396,000

Adjusting the official statement by including the Austrian loans and calculating interest up to June 1923, the figure would be $556,650,000.

Original official figure	$488,940,000
Plus Austrian Loans £5,200,000 @$8 =£1	46,600 000
Plus Interest January to June 1923 (on the basis official document)	21,110,000
	$556,650,000

Whether we take the official figure or follow that of Mr. Padoux, China's unsecured debts can roughly be taken as half a billion dollars. Its magnitude makes the situation serious enough, but the great

(*Continued on page 100*)

Knowledge Is Back of All Business

It was Disraeli, we believe, who said that up to twenty a man learns about new things; after that he spends most of his life learning more about the things he already knows.

The books here listed merit attention because they go deeper, more thoroughly and more authoritatively into the topics with which men are likely to have only a nodding acquaintance.

	NET
Spencer: Law and Business I	$ 9.90
" " " II	9.90
" " " III	9.90
Conyngton: Financing an Enterprise, 3 Vols.	15.40
Ignatius: Financing of Public Service Corporations	11.00
Fisher: Methods of Constructing Index Number	16.50
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Edie: The Stabilization of Business	5.50
Boggs: The International Trade Balance	4.40
Keebel: Anglo-South American Handbook	16.50
Bowley: Prices & Wages in the United Kingdom 1914-1920	5.30
George Philip: New Commercial Map of China	25.00
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Whitehead: Common Sense in Business	5.50
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25-303

Chinese Government Finances and Debts

(*Continued from page 98*)

number of creditors involved render it still more so. The matter has become more complicated, as it appeared to raise the question of the security of the consolidated domestic loans. The foreign creditors had long become impatient of the government's apathetic attitude, and, alarmed at China's financial prospects, the British, American, French and Japanese Legations protested to the Chinese government about domestic loans being regularly repaid out of customs surplus while some foreign debts remained unpaid, and asked to have the increment in customs used for the service of foreign debts. As the protest may be interpreted to mean the possibility of overriding the claims of holders of consolidated loan bonds, telegrams were addressed by the Shanghai Chamber of Commerce, Chinese Bankers' Association and Native Banks' Association on behalf of bondholders to the inspector general of customs urging him, as administrator of the consolidation sinking fund, to take care of their interests. Thus the question of unsecured foreign debts seems to give rise to a tug-of-war between unsecured foreign creditors and holders of Chinese consolidated domestic loans. Sir Francis Aglen, in a memorandum to the government, affirmed the priority of claims of holders of consolidated loans and Tenth Year 8% bonds to the customs surplus and at the same time blamed the government for earmarking the increment in customs revenue for administration expenses to the extent of $13,000,000. As to the means of solving the question of unsecured debts, he advocates the government to ask the powers to agree to tariff autonomy for China, so that all debts, foreign and Chinese, may be repaid out of the increased customs revenue. Numerous other solutions have been suggested. It will suffice to mention two. (1) Mr. Padoux's scheme is to consolidate all the Chinese and foreign unsecured debts by the issue of consolidated bonds to a nominal amount not exceeding $625,000,000, bearing interest at 7% per annum from October 1st 1923 and amortisable in 12 years, starting with the year 1923. The payment of interest and amortisation is to be made out of the customs revenue after all regular charges for foreign obligations and domestic loans have been met. His calculation is based on the assumptions that the raising of the import duty from 5% to 7½% for necessaries and to 10% for luxuries will be effective from 1924, that increase in customs revenue from development of trade will at least be $3,000,000 a year, and that the International Commission to establish the 2½% customs surtax will meet and reach a decision before the end of 1923. (2) The recommendations of the Organising Committee for the Financial Conference are as follows:—

(a) Consolidated loans—Payment to be made out of the customs surplus, to be supplemented by salt surplus if it is found insufficient,

(b) Tenth Year 8% Bonds—Increase in customs revenue from the effective 5% duty to be applied to their service.

(c) Unsecured foreign debts—the greater part of the 2½% customs surtax to be used for their consolidation; other means to be found to pay for interest on such debts pending the imposition of the 2½% surtax, e.g. from the salt surplus.

Railway and Telegraph Loans

Starting with 1912, the finance of the four services of the Ministry of Communications, viz, Railway, Telegraph, Posts and Navigation, has been set aside in a special budget, only administrative expenses of the Ministry proper being included in the general budget. The budget for 1913-14 showed a surplus of $10,400,825, receipts being $55,647,752 and disbursements $45,246,928, and that for 1919-20 gave both the receipts and expenditures as $141,462,607, the former including a loan of $29,179,743. The year 1922 showed, however, an alarming deficit of $53,590,644 as a semi-official report gives the receipts as $10,527,950 and disbursements as $64,118,594. The deficit was caused both directly and indirectly by the political conditions of the country. Directly, as military commanders seized at least a portion of the revenue of the railway line running through the territory of their influence and also some of the funds of the Ministry of Communications were diverted for general political purposes. Indirectly, because disturbed conditions had caused a falling in traffic which was interpreted in the diminished revenue. We append below a condensed statement of receipts and disbursements of the railways, telegraphs and posts for 1915, showing what the conditions of a more normal year were:—

Railway Line	*Receipts*	*Disbursements*	*Gain (†) or Loss (*)*
Peking-Moukden	$15,425 998 49	$10,017,561.39 †	$5,408 437.10
Peking-Hankow	17,237 950.31	11,168,378.55 †	6,069,571.76
Tientsin-Pukow	8,556,345.98	11,283,728 73 *	2,727,382.75
Peking-Kalgan	2,743,779.39	1,468,191,65 †	1 275.587.74
Kalgan-Suiyuan	881,101,60	510,062 59 †	371,039.01
Shansi-Railway	2,143.633.85	2,261,610.77 *	117.976.92
Taokow-Chinghua	633,507.67	887,047.00 *	253,539.33
Kirin-Changchun	914 031.26	1,367,370.08 *	453,338.82
Pienlo Railway	1,162,088 86	1,416 799.89 *	254.711.03
Canton-Samsui	851,568.83	537,559.60 †	314,009.23
Canton-Kowloon	817,490 50	1,825,311.73 *	1 007.821 23
Shanghai-Nanking	3,442,596.07	3 929,807.99 *	487,211.92
Shanghai-Hangchow-Ningpo	2,072,400.47	2,516,785.22 *	444,384.75
Chuchow-Pingshan	692,106.50	768,115.04 *	76.008 54
Changchow-Amoy	41,081.78	206,086.04 *	165,004.26
Total	$57,615,681.56	$50,164,416 27 *	$7,451 265.29 Net †
Telegraphs (July-December 1915)			
Total	$ 4,100,639.00	$ 3,072 929.00	$1,027,710.00
Posts			
Total	$ 6,803,000.00	$ 6,555,000.00	$ 248,000.00

The debts of the Four Services may be classified as follows:—

(1) Railway Foreign Loans.
(2) Railway Domestic Loans.
(3) Railway Nationalisation Bonds.
(4) Telegraph Foreign Loans.
(3) Short Term Loans from Chinese Banks and others.
(6) Advances fromChinese Banks.

[1] Railway and Foreign Loans

Title	*Source*	*Date*	*Principal*	*Rate of Interest*	*Period*	*Amount Outstanding*	*Security*
Imperial Railways of China (i. e. Peking Moukden Ry.)	British and Chinese Corporation	1899	£ 2,300,000	6%	45 years	£ 1.322,500	Government Guarantee and Railway Revenue.

The Bank of Canton, Limited.

Incorporated 1912

Capital Authorized £1,200,000.00
Capital Paid-up £1,066,520.00
Reserve Fund. . . . . H.K. $800,000.00

Head Office

No. 6 Des Voeux Road Central, Hongkong

Offices:

Shanghai, New York, Canton and Bangkok.

Shanghai Office:

No. 1 & 2 Ningpo Road.

Agencies:

Honolulu	San Francisco	Kobe
London	Samarang	Batavia
Manila	Singapore	Canada
Yokohama	Sourabaya	etc.

Interest allowed on Current Accounts and Fixed Deposits according to arrangement.

Every description of Banking and Exchange business transacted.

Wong Wen-kuang,
Manager.

25-305

Peking-Moukden Rly.	British and Chinese Corporation	1921	£ 500,000	8%	5 years	£ 500,000	Railway Revenue
Peking-Moukden Rly.	do	1921	,, 2,000,000	8 ,,	4 ,,	,, 2,000,000	Railway Revenue
Hsin-min-tung Moukden Rly.	South Manchuria Rly. Co.	1909	Y 320,000	5 ,,	18 ,,	Y 97,777.79	do
Shansi Rly.	Russo-Asiatic Bank	1902	Fr. 40,000,000	5 ,,	30 ,,	Fr. 24,785,000	Government Guarantee and Rly. Revenue.
Pienlo Rly.	Belgian	1903	Fr. 41,000,000	5 ,,	30 ,,	Fr. 39,760,000	do
Shanghai-Nanking Rly.	British & Chinese Corpn.	1903	£ 2,900,000	5 ,,	50 ,,	£ 2,900,000	Profits of and mortgage upon railway.
do	do.	1913	,, 150,000	5 ,,	10 ,,	,, 60,000	do
Shanghai-Hangchow-Ningpo Rly.	do.	1908	,, 1,500,000	5 ,,	30 ,,	,, 1,200,000	Surplus Earnings of Peking Moukden Rly.
Taokow-Ching-hua Rly.	Peking Syndicate	1905	,, 800,000	5 ,,	30 ,,	,, 635,000	Government Guarantee and Rly. revenue.
do	do.	1918	G. $ 300.000	8 ,,	5 ,,	G $ 600,000	
do	do.	1919	£ 126,838-18-7	7½%	11 ,,	£ 101,471	
Canton-Kowloon Rly.	British & Chinese Corpn.	1907	,, 1,500,000	5%	30 ,,	,, 1,368,000	Profits & Mortgage upon Rly.
Tientsin-Pukow Rly. (1)	Anglo German	1908	,, 5,000,000	6 ,,	30 ,,	,, 4,000,000	Likin and Internal Revenue of Chihli, Shantung & Kiangsu
Tientsin-Pukow Rly. Supplementary Loan (2)	do	1910	,, 3,000,000	5 ,,	30 ,,	,, 2,850,000	do and also of Anhwei.
Tientsin-Pukow Rly. Advance (3)	Deutsche Asiatische Bank	1912	,, 900,424-6-4	7%		,, 900,424-6-4	
Redemption of Peking-Hankow Rly. Loan	Anglo-French	1908	,, 5,000,000	5½% 15 yrs) 4½% 15 yrs)	30 years	,, 4,250,000	Sundry Taxes of Chekiang Kiangsu, Hupeh and Chihli.
YuChuanpu Loan for Redemption of Peking-Hankow Rly.	Yokohama Specie Bank.	1911	Y 10,000,000	5%	25 ,,	Y 9,340,000	Government Guarantee and Tribute Grain Conversion Tax of Kiangsu.
Hukuang Rlys, (4)	British-American French-German.	1911.	£ 6,000,000	5 ,,	40 ,,	£ 5,909,691-7-2	Hupeh & Hunan Salt and Likin revenues and Hupeh rice tax.
Hunan-Hupeh Rly.	British & Chinese Corporation	1919	$ 2 000,000	8 ,,	3 ,,	$ 100,000	
Lung-Tsing-U-Hai Rly.	Belgian	1912	£ 4,000,000	5 ,,	40 ,,	£ 4,000,000	Government Guarantee and Railway Revenue.

Lung-Tsing-U-Hai Rly.	Belgian	1919	Fr.	,,20,000,000	7%	5 ,,	Fr.20,000,000	Government Guaran Fee and Railway Revenue
do.	do.	1920	,,	75,000,000	8 ,,	10 ,, ,,	75,000,000	
do.	Dutch	1920	Fl.	16,667,000	8	10 ,,	Fl.16,667,000	
Sinyang-Pukow Rly. advance	British	1913	£	198,792-6-2	6%		£ 198,792-6-2	
do.	do.	1913	,,	8,463-16-6	7 ,,		,, 8,463-16-6	
Tatung-Chengtu Rly. advance (5)	Franco-Belgian	1913	,,	770,217-6-6	6%		,, 1,235,383-13-6	
do. (5)	do.	1913	Fr.	,, 5,798,518.95	6%		Fr. 9,271,691.77	
Nankin-Changsha Rly. advance	British and Chinese Corporation	1914	Hk. Tls.	2,000,000	6 ,,		Hk. Tls. 2,000,000	
do.	do.	1914	Sh. Tls.	486,000	6 ,,		Sh. Tls. 486,000	
Shanghai-Fengkin Rly.	do.	1914	£	275,000	6 ,,	20 years	£ 275,000	Railway Revenue
Ssupingkai-Cheng-Chiatun Rly.	Yokohama Specie Bank	1915	Y	5,000,000	5 ,,	40 ,,	Y 5,000,000	do
do.	do.	1920	Y	1,600,000	9 ,,	2 ,,	Y 1,600,000	do
do.	South Manchuria Rly. Co.	1921	Y	12,500,000	9½%	1 year	Y12,500,000	do
Chuchow-Kinchow Rly. advance	American	1916	G	$ 1,150,000	7%		G $ 1,150,000	
Harbin-Heilungkiang Rly. advance.	Russo-Asiatic Bank	1916	Sh. Tls.	500,000	7 ,,		Sh. Tls. 500,000	
Kirin-Changchun Rly.	South Manchurian Rly Co.	1917		Y 6,500,000	5 ,,	30 years	Y 6,500,000	Railway Revenue.
Kirin-Huaining Rly. (6)	Japanese	1918		Y10,000,000	7½%		Y 10,000,000	Treasury Notes.
Mongolian-Manchurian Rly.	do.	1918		Y20,000,000	8%		Y20,000,000	do
Tsinan-Shunteh-Kaomih-Hsuchow Rly.	do.	1918		Y20,000,000	8 ,,		Y20,000,000	do

Remark :— (1) Redemption of £630,000, being German portion already due, has been suspended.
(2) Redemption of £ 94,500, being German portion already due, has been suspended.
(3) Redemption suspended.
(4) Redemption of £ 22,577-3-4. being German portion already due, has been suspended.
(5) Unpaid interest carried into the advance account up to October 15th, 1921 as general.

[2] Railway Domestic Loans

	Date					
Peking-Suiyuan Rly 5th short term bonds	1918	$ 591,000	7½%	4 years	$ 136,950	
Peking-Suiyuan-Potow Rly. Loan	1921	309,300	7½ ,,	5 ,,	309,300	
Peking-Suiyuan Rly. Extension Short Term Bonds	1921	5,000,000(?)	8 %	p.m. 5 ,,	5,000,000(?)	
do	1921	1,000,000(?)	12 ,,	p.m. 6 months (twice)	1,000,000(?)	
Peking-Hankow Rly. Extension Short Term Bonds	1921	327,300	8 ,,	p.m. 4½ years	327,300	
Railway Bonds	1922	11,400,000		3 years	10,920,000	
Rolling Stock Bonds	1921	6,000,000	8 ,,	3 ,,	4,500,000	

[3] Railway Nationalisation Bonds

Title	*Principal*	*Interest*	*Principal Out-standing*	*In. Out-standing*
Szechuen Rly. Bonds	$18,900,228.80	$10,353,100.00	$17,589,229.80	$10,353,100.00
Hunan Rly. Share Bonds	4,722,600.00	2,400,271.88	4,246,000.00	2,300,171.88
Hunan Rly. Debenture Bonds	4,049,000.00		1,077,900.00	
Kiangsu Rly. Share Bonds	4,683,050.00	764,900.00	312,200.00	102.000.00
Tatung-Puchow Rly.				

Debenture Bonds	1,798,000.00		1,161,000.00	
Anhwei Rly. Debenture Bonds	606,000.00		189,000.00	
Chekiang Rly. Share Bonds	10,587,600.00	1,608,000.00	880,500.00	61,700.00
Chekiang Rly. Debenture Bonds	5,522,000.00		209,000.00	
Hupeh Rly Share Bonds	404,499.00	54,600.00	161,799.00	36,400.00
Lotong Rly. Debenture Bonds	428,000.00		328,000.00	

[4] Telegraph Foreign Loans (June 30, 1922)

Title	*Date*	*Principal*	*Rate of Interest*	*Period*	*Amount outstanding*	*Interest Arrears*
Shanghai-Chefoo-Tientsin Cable Loans	1900	£ 210,000	5%	30 years	£ 101,700	£ 37,316
do Supplementary	1900	£ 48,000	5 ,,	30 ,,	£ 23,613	£ 6,331
Great Eastern and Great Northern Cos. Loan	1911	£ 500,000	5 ,,	20 ,,	£ 314,845-10-0	£ 84,496-10-0
Sino-Japanese Industrial Development Co. Telephone Loan (1)	1918	Y 10,000,000	8 ,,	3 ,,	Y 10,000,000	
Marconi Wireless Advance (2)	1918	£ 200,000	8 ,,	4½% ,,	£ 200,000	£ 5,892-12-6
Exchange Bank of China Telegraph Loan (Japanese) (3)	1918	Y 20,000,000	8 ,,	5 ,,	Y 20,000,000	
Asia Development Co. Telegraph Loan (4)	1920	Y 15,000,000	9 ,,	13 ,,	Y 15,000,000	

Remarks:—(1) Y. 8,000,000 to be repaid by the Ministry of Communications and Y.2,000,000 by the Ministry of Finance.

(1) Already included in "Short Term" Foreign Loans.

(3) Already included in "General Loans" Proceeds entirely used by the Ministry of Finance.

(4) Only Y.2,490,000 appropriated to Telegraph service, balance paid to the Ministry of Finance.

(5) Short Term Loans from Chinese and Other Banks.

On June 30th 1922, there were under this heading 50 items aggregating $13,000,000, bearing interest at various rates, ranging from 10 to 20% per month, and running for different periods of time.

(6) Advances from Chinese Banks.

On December 31, 1922, there were 6 items under this heading, totalling $706,938.03, with interest at 8.25%o to 13% per month.

We can summarize the indebtedness of the ministry of Communications for the railways and Telegraph service as follows:—

	Equivalent in Silver Dollars	
Railway Foreign Loans	$511,493,597.59	(1)
Railway Domestic Loans	16,193,550.00	
Railway Nationalisation Bonds	39,007,980.68	
Telegraph Foreigns Loans	57,242,596.30	(2)
Short Term Loans from Chinese Banks	13,000,000.00	
Advances from Chinese Banks	706,938.03	
Total	$937,644,662.60	(3)

Remarks:— (1) If we exclude loans already listed in previous tables the amount would be $456,493,597.59.

(2) If we exclude loans already listed (5) and the sums appropriated by the Ministry of Finance, the amount would be $37,797,926.30.

(3) After readjustment as per remarks (1) and (2), the total would be $563,199,992.60.

We may note that of the above list the two last named classes, totaliing nearly 14 millions, as well as about 74 millions of the so-called railway and telegraph loans, making altogether $88,000,000, were really contracted for political uses and must therefore be classified as such. These loans are practically unsecured and in reckoning China's total unsecured debts, they should be added to the 448 millions listed by the Ministry of Finance.

We are now in a position to figure out the total indebtedness of the Chinese government, including railway and telegraph loans as well as Boxer Indemnity, War and General loans etc., as $2,280,149,697.28. For the sake of clearness, we give below two tables - Table I. classified according to whether the creditor is Chinese or foreign and Table II. according to whether the debt is secured or not:-

Table I.

Chinese	$537,879,773.16
Foreign	1,744,269,924.12
	$2,280,149,697.28

Table II.

Secured	$1,725,385,691.35
Unsecured	554,764,005.97
	$2,280,149,697.28

The consortium

A narrative of China's foreign debts will not be complete without giving a brief account of the consortium. The old consortium, as distinguished from the new consortium, came into existence in 1910 with the conclusion of the Hukuang Railway Loan, although international cooperation in Chinese finance had existed before, e. g. the Franco-Russian loan of 1895 and two Anglo-German loans of 1890 and 1898. Hukuang Railway is a collective name given to the lines of the Canton-Hankow and Hankow-Szechuan lines. An Anglo-American loan was at first intended to finance the consortium of the railway, but America refused to join in 1904. In the next year England and France came to an arrangement with regard to the loan, but little was done until, in 1908, Germany insisted upon participation. The loan agreement was initiated by the

Chinese government with the British, French and German group on June 6, 1909. Then, upon the interference, first by the American legation and next by President Taft, the tripartite banks invited the American group, in May 1910, to join their combination. This invitation was accepted and an intergroup agreement was signed in November, 1910, thus giving birth to the first four powers consortium. The final Hukuang loan agreement was signed by the Chinese government with the consortium represented by the Hongkong and Shanghai Banking Corporation (British), Banque de l'Indo-Chine (French), Deutsch-Asiatische Bank (German) and the International Banking Corporation (American), on May 20, 1911. The formation of the consortium marked the tendency of substituting international cooperation and international control for spheres of interest and national control.

On April 15, 1911, another agreement was signed between the Chinese government and the consortium for the issue of a £10,000,000 loan "for currency reform and industrial development." The loan was however not issued on account of the revolution, £400,000 only being advanced for plague and other expenses in Manchuria on June 1,1911.

Powers Put Ban on Loans

At the outbreak of the revolution in 1911, the Powers adopted a policy of strict neutrality and no fund was allowed to be advanced either to the imperial government or the revolutionary party. The Manchus having abdicated on February 12, 1912, the premier of the new republican government invited, on February 27th, the representatives of the Consortium to consider the question of a general reorganization loan of £60,000,000, to be made in five annual instalments of £12,000,000 each. On the following day, e. g. February 28, the embargo was raised and an advance of Tls. 2,000,000 was made to the Chinese government by the Hongkong and Shanghai Banking Corporation on behalf of the consortium, A second advance of Tls. 1,100,000 was made on March 7th. On the 9th, a letter was received by the banks from the president of the republic, giving the consortium a firm option for the provision of the further monthly requirements of the Chinese government for March, April, May, June and possibly July and August, and conferring upon the consortium also "the firm option of undertaking the comprehensive loan for general reorganization purposes."

While giving a firm option to the consortium, the Chinese government entered into negotiation with the Banque Belge Pour l'Etranger which resulted in the signing on March 14 of a Belgian loan for £1,000,000 to be followed subsequently by a larger loan, amounting in all to £10,000,000, preference being given to the bank to float loans to aggregate to this amount. The quadruple banks regarded this action of the Chinese government as a breach of faith with regard to the earlier contract and immediately suspended further payments, refusing to comply with their side of the agreement unless the Belgian loan was cancelled. To the Banks' demand, active support of their respective governments under the British leadership was liberally given and the Belgian contract was finally cancelled.

Reorganization Loan Is Arranged

In order to secure the possible broadcast internationalization of Chinese loans by pooling the most influential foreign interests, invitation to join the consortium was issued by the four nations group on March 11. Japan accepted on the 20th and designated the Yokohama Specie Bank as the official representative. Russia hesitated but finally agreed to enter the combination. An intergroup agreement was signed on June 18, 1912, for the issue of a Chinese government reorganization loan for £60,000,000 or thereabouts," between the Hongkong and Shanghai Banking Corporation, representing the British Group, composed of the Bank, Baring Bros. & Co., J. Henry Schröder & Co., Parr's Bank, and London County and Westminister Bank; the Deutsch-Asiatische Bank, representing the German Group composed of the Bank, Disconio-Gesellschaft, S. Bleichröder, Deutsche Bank, Berliner Handels-Gesellschaft,. Bank für Handle und Industrie, Mendelssohn and Co., Dresdner Bank, A. Schaaffhausenscher Bankverein, National Bank für Deutschland, Jacob S. H. Stern, Sal Oppenheim Jr. and Cie., Norddeutsche Bank in Hamburg, L. Behrens und Söhne and Bayerische Hypotheken und Wechselbank; the Banque de l 'Indo-Chine representing the French Group composed of the Banque, Banque de Paris et des Pays-Bas, Comptoir National d' Escompte, Credit Lyonnois, Societe Generale pour favoriser le developpement du Commerce et de l'Indurie en France, Societe Generale de Credit Industrial et Commercial, Banque de l'Union Parisienne, Banque Francaise pour le Commerce et l'Industrie, and Credit Mobilier Francais; the American Group composed of J. P. Morgan and Co., Kuhn, Loeb and Co., The First National Bank and the National City Bank; the Russo-Asiatic Bank representing the Russian Group composed of the Bank, A. Spitzer and Co., J. Henry Schroeder and Co., Eastern Bank Ltd., Banque Sino-Belge, Societe Belge d 'Etude de Chemins de fer en Chine, and the Banque d 'Outremer; and the Yokohama Specie Bank representing the Japanese group. This agreement marked the formation of the Six-Power Group. In March 1913, however, the American Group withdrew, as a consequence of President Wilson's instructions to discontinue the moral support of the American government, because, in the words of the President, "the conditions of the loan (under negotiation) seem to touch very nearly the administrative independence of China itself." Thus, the Six-Power Group came to be transformed into the Five-Power Group.

War Changes Situation

The work of the Consortium bore fruit in the signature of the reorganization loan of £25,000,000 on April 26, 1913. The loan agreement established the Inspectorate of Salt Revenues under a foreign Associate Chief Inspector and also the Board of Audit to which two foreign advisors and one foreign Director of the Bureau of National Loans were appointed. It also gave an option to the consortium banks to undertake any further loans to be secured upon salt revenues or to be used for purposes of reorganization. The provisions of foreign control had aroused a great deal of opposition in the country and the monopolistic nature of the loan also gave rise to much dissatisfaction among foreign financiers outside the consortium. It was the combination of these two factors that motived the Belgian loan we have already described, the Crisp loan of August 1912, and also the creation of the Banque Industrielle de Chine and the subsequent flotation of several loans by this bank in the French market. At the Paris meeting of the Consortium representatives on September 26, 1913, it was ruled, however, that although administrative loans were to be undertaken exclusively by the Consortium, railway and industrial loans should be left open to free competition.

China's declaration of war against the Central Powers caused the exclusion of the German Group from the consortium and the quintuple group again became quadruple, composed of the British, French, Russian and Japanese. During the progress of the war, Japan was the only member of the consortium who was in a position to supply China with money. It was thus the Japanese group who made the first, second, and third advances, though in the name of the consortium as a whole, the second Reorganization Loan, of Yen 10,000,000 each in September 1917, January 1918 and July 1918. Besides the official member in the consortium, the Japanese were very active in 1918 in making loans to China, some through a group composed of the Industrial Bank of Japan, Bank of Chosen and Bank of Taiwan and some through the Exchange Bank of China. The figure ran up to about 150 millions. This aggressive loaning policy stirred up opposition of the Chinese people and attracted attention of other Powers.

The America's withdrawal from the Consortium has always been regarded with disfavor by the American financiers and with the progress of time the policy of the Wilson administration also changed from one of keeping away to one of active leadership. The change of attitude was probably accelerated by the position of America in the world war as an active fighting member and also the forward policy pursued by Japanese financiers under the guidance of their government. On July 10, 1918, the American government sent a note to the British, French, and Japanese governments, inviting them to join in the formation of a new consortium of the four groups.

The Plan of Organization

The main lines of the American proposition were :-

(1) There should be organized a new international group consisting of representative financial institutions of the United States, Japan, Great Britain, and France, without prejudice to the claims of Belgium and Russia to be included at a later date, each national group to be made so broad as to include all those parties interested in the old Consortium and such others not so associated, who are engaged or might engage in loans to China, as well as any others whose participation might be desired. (2) Any option held without distinction as to their nature by individual banks should be relinquished to their national group, which should, in turn, share them with the international group exception being made for such concessions as may be already in operation. (3) Industrial as well as administrative loans should be included in the new arrangement, but financial operations not involving a Chinese government guarantee or a public issue will be open to all. (4) There should be no terms or conditions of a loan which sought to impair the political control of China or lessen its sovereign rights; but the American government did not mean to imply that foreign control of the collection of revenues or other specific security pledged by mutual consent would necessarily be objectionable, nor would the appointment under the terms of some specific loan of a foreign adviser. (5) Each national group will receive the active and exclusive support of its government in the sphere thus indicated. An inter-group conference, attended by representatives of the four groups, was held in Paris on May 11, 1919, at which resolutions were passed adopting the principles laid down by the American government. The following points may however be cited, as they either contain new salient points or reiterate original ones in a more definite language:- (1) In addition to future business all existing loan agreements and options which involve the issue for subscription by the public of loans be pooled, with the exception of agreements and options relating to industrial undertakings (including railways) upon which substantial progress has been made; any such agreements and options which the groups possess or control will be surrendered to the Consortium; and the groups will use their best endeavors to induce other parties who may possess or control any each agreements or options to surrender the same to the consortium. (2) Each group in the new Consortium shall be a national unit and no member of any group shall within the scope of the operations of the consortium represent directly or indirectly any other national interest. (3) Industrial undertakings and railways in particular should be handled as an undivided whole and not sectionally. (4) The Japanese group will be allowed to participate in the Hukuang Railway loan. On the following day (May 12, 1919) a draft inter-group agreement was signed, subject to approval by the respective governments. The most important point was the declaration in Art. IV that the agreement was made "on the principal of complete equality in every respect between the parties."

Difficulties Are Encountered

In the course of the exchange of diplomatic correspondence between the powers concerned, it was clear that each government, excepting the American, has its difficulties in adopting the general formula enumerated above. Both the British and French governments took exception to the provision of exclusive support. For the French, there was the Banque Industrial de Chine, a bank staying outside of the French group, who held important agreements and options amounting to Fr. 2,250,000,000. In the case of Great Britain, the government was reluctant to give up the Paris resolution of the old consortium of September 1913 regarding railway and industrial loans and British institutions not included in the British group but possessing important interests in China were indeed many. Both however gave way to a new formula suggested by the American government by which each government was to pledge to the support of its respective national group rather than to the consortium collectively—but "in the event of competition in the obtaining of any specific loan contract the collective support of the diplomatic representatives in Peking of the four governments will be assured to the Consortium for the purposes of obtaining such contract." The British government informed the Hongkong and Shanghai Bank that it was prepared to support the British group, but could not give them a monopoly of official support.

The greatest difficulty came from the Japanese side. Acting under instructions from their principals, the Japanese financial delegates in Paris informed their colleagues, on June 16, 1919, that "all the rights and options held by Japan in Manchuria and Mongolia, where Japan has special interests, should be excluded from the arrangements for pooling provided for in the proposed agreement" because of "the very special relations which Japan enjoys geographically and historically with the regions referred to and which have been recognized by Great Britain, the United States, France and Russia on many occasions." "Manchuria" and "Mongolia" were afterwards altered by an official note into "South Manchuria" and "Eastern Inner Mongolia." The American and British governments objected to the Japanese claim, thinking that it "would constitute a direct negation

(*Continued on page 107*)

Modern Chinese Banks in Shanghai

As may be seen from the table that follows, most of the Chinese banks that are classed as modern in type also are young. The following is a list of the modern Chinese banks of Shanghai:

Bank of Canton, all branches of banking and exchange businesss; head office in Hongkong; organized February 21, 1912 (Incorportated under the Hongkong Companies Ordinance); branches in Shanghai, New York, Canton, Bangkok and Hankow; agencies in San Francisco, Seattle, London, Yokohama, Kobe, Manila, Singapore, Batavia, Samarang, Vancouver, Honolulu, Amsterdam, Sydney, Victoria, Peking and Tientsin; Officers and directors—Look Poong Shan, chief manager; Li Tsze chung, submanager; Li Yuk Tong, Look Poong Shan, Li Sing Ku, Ma Chui Chiu, Li Po Kwai Tam Woon Tong, Ng Yiu Ting, Li Wing Kwong, Ng Yu Hon Mak Lai Ting, Chung Sik Fan, Chan Fu Cheong, and Lam Woo, Choy Chong and Choy Siu Woon, directors.

Bank of China; government bank, and general banking business; head Office, Peking; organized in 1912; capitalization, $18,914,400 paid in, and $5,978,425.24 reserve fund; branches throughout China, about a hundred branches in all; agencies in London, New York, Paris, San Francisco, Tokio and Berlin; Officers and directors—Wong Ko-min, governor; Chang Kia-ngau, vice governor (張嘉璈); Sze Tsao Tsen, Feng Kan Kwang, Li Sze Wei, Lo Hung Nien, Wang Chun Nee, Chang Chien, King Fan, Li Ming, Chow Chu Ming, directors. Sung Han-chang (宋漢章), manager of Shanghai Office.

Bank of Communications, government bank; head Office in Peking; specially authorized and made a national bank by presidential mandate of April 7, 1914, and October 31, 1915; capitalization, $20,000,000; over sixty branches and agencies in China, and foreign agencies abroad in such places as Singapore, Hongkong, Tokio, etc.; Officers and directors—Chang Chien, President; Chien Yung-Ming, Vice-President; Shen Chu-Hsu, manager of Shanghai branch.

Bank of East Asia, general banking and foreign exchange; head Office, Hongkong; organized in 1918 (registered in Hongkong); capitalization, (Hongkong currency) $10,000,000 authorized, and $5,000,000 paid up; branches in Shanghai, Canton and Saigon; agencies in Hankow, Tientsin, Peking, London, Paris, Singapore, Batavia, New York, San Francisco, Honolulu, Kobe, Yokohama, Taipeh, and Calcutta; Officers and directors—Pong Wai Ting, chairman of the board; Chow Shou Son, Kan Ying Poh, Li Koon Chun, P.K. Kwok, Mok Ching Kong, Wong Yun Tong, Fung Ping Shan, Ng Chang Luk, Kan Chiu Nam, Chan Ching Shek and Huyhn Tai, directors.

China and South Sea Bank, Ltd., general banking business; head office, Shanghai; organized in 1921; capitalization, $20,000,000 authorized and $5,000,000 paid up; branches in Tientsin and Amoy; agencies in more than twenty of the principal cities of China, and foreign agencies in Hongkong, London, New York, San Francisco, Paris, Berlin, Yokohama, Singapore, Batavia, Soerabaya, Semarang, Manila and other places; Officers and directors—Oeitjoe, chairman; Sze Kai-Shiu, Ma Yik-Chien, Han Hsi-Chi, Wu Shiu-Sun, and Yeh Yuan-Ping; Hsu Kuo-An and Tao Yuan, auditors; Y. Hou, managing director; C. Ma, assistant manager.

(*Continued on page 108*)

Chinese Government Finances and Debts

(*Continued from page 106*)

of the principle on which the Consortium is based, would provoke the revival of similar claims on the part of other nations and thus perpetuate the very difficulties which the Consortium is designed to obviate." After much exchange of diplomatic correspondence and the special mission to Japan of Mr. T. W. Lamont on behalf of the American, British and French groups, the Japanese withdrew their original proposition of reservations, being satisfied with the general assurance that "the Japanese government need have no reason to apprehend that the consortium would direct any activities affecting the security of the economic life and national defence of Japan and that the Japanese government can firmly rely on the good faith of the Powers concerned to refuse to countenance any operation inimical to such interests."

Understanding Is Reached

The understanding arrived at by Mr. Lamont with the Japanese Group with regard to railway enterprises in Manchuria and Mongolia are, however, important. The terms of this understanding follow:

(1) The South Manchurian Railway and its present branches together with the mines which are subsidiary to the railway, do not come within the scope of the Consortium.

(2) The projected Taonanfu-Jehol Railway and the projected railway connecting a point on the Taonanfu-Jehol Railway with a seaport are to be included within the terms of the consortium agreement.

(3) The Kirin-Huaining, the Chengchiatun-Taonanfu, the Changchun-Taonanfu, the Kaiyuan-Kirin via Hailung, the Kirin-Changchun, the Sinminfu-Moukden and the Ssupinkai-chengchiatun railways are outside of the scope of the joint activities of the consortium.

The Chinese government was informed of the formation of the new consortium on September 28, 1920 and the inter-group agreement, a draft of which was initiated sixteen months ago, was definitely signed on October 15, by the Hongkong and Shanghai Banking Corporation, the Banque de l' Indo-Chine, the Yokohama Specie Bank, and the American Group, represented by J. P. Morgan & Co., Kuhn, Loeb & Co, the National City Bank, the Guaranty Trust Company, Continental and Commercial Trust and Savings Bank, Chase National Bank and Lee, Higginson & Co. Chinese bankers will not be shut out by the consortium, but "the cooperation of the Chinese bankers with the consortium group in the furnishing of money in large amounts to the Chinese government will be welcome," was declared by Frederick W. Stevens, representative in Peking of the American Group and other members of the consortium

Modern Chinese Banks of Shanghai

(*Continued from page 107*)

Chekiang Industrial Bank, Ltd., domestic and foreign banking of a general commercial nature and savings; head office, Hangchow, Chekiang; organized in 1908; capitalization, $2,000,000; branches in Shanghai, Hankow, Haimun, and Lanchi; agencies throughout the commercial centers of China; Officers and directors – Chu Shao Nan, chairman of the board; Chen Kung Yah, Chen Nien Tsu, Chien Yung Ming, Kwan Tse Ching, Li Ming, Lou Ing Tsai, Sah Foh Mou, Tsen Sze Lee, Tseng Sing Soo and Woo Chee Sung, directors; Kuh Soo Chien, manager in Hangchow; Li Ming, manager in Shanghai; Liang Ching Hwa, acting manager in Hankow; Han Sih Dong, manager in Haimon; King Ven Yung, manager in Lanchi.

Chung Foo Union Bank general banking, head office in Tientsin, organized in 1916, authorized capital $2,000,000 and paid up capital $1,500,000. Branches in Peking, Hankow and Shanghai, agencies in all the principal cities of China and foreign agents in London, New York, Paris, Berlin, San Francisco, Tokio, Osaka, Kobe, Yokohama, and other cities; Officers and directors—T. Clarence Sun, chairman of the board; G. Arthur Sun, Sun Tao yien, Fu Tsung-sian, Kung Hsin-chan, Nieh Chi-wei, Yuen-fong Ralph Sun, Z. S. Bien and Ling Pao-heng; T. Clarence Sun, managing director, Nieh Chi-wei, deputy managing director; Nieh Chi-wei, Tientsin manager; Yuen-fong Ralph Sun, Shanghai manager; Zing Kai, Hankow manager; Y. T. Tsur, Peking manager.

Chung Hwa Commercial and Savings Bank, Ltd., savings and general commercial banking; head Office in Shanghai; organized in 1912; capitalization, $250,000 paid up, and $160,000 reserve fund, Officers and directors – Kwoh Chu-chao 郭竹樵 chairman; Chu Pao-san, 朱葆三 vice chairman; Wang I-ding, Chow King-tsing, Pei Zing-sun, Fu Shiao-en 傅筱菴 Koo Shin-ih, directors; S. F. Kiang, manager.

City Bank of Shanghai, Ltd., commercial and savings banking; head office, Shanghai; organized in 1919; capitalization, $500,000 fully paid up; agencies in the principal cities of China; Officers and directors —Hung Ying Yeh, managing director, Paul P. L. Wong, general manager, and H. Y. Liu, manager.

Continental Bank, general commercial financing, trust and savings accounts safe keeping of valuables, commercial loans, warehouse management, inland money transfer and handling of bonds; head office, Tientsin; organized in 1919; capitalization, $5,000,000 authorized and $2,500,000 paid in; branches in Peking, Shanghai, Hankow, Tsinan, Tung Hsien, Nanking, Shakwan and Soochow; correspondents in all the commercial centers of China; officers and directors— L. S. Tan, president of the board of directors; Wan Pi Shen, Kun Sen Chow, Hsu Han Chin, Soo Kwan Chen, Fung Hsu An, Yu Chun Han, directors; Hsu Han Chin, Tientsin manager; F. S. Yih, Shanghai manager; Wang Chien Tan, Peking manager; Lu Mong Shan, Nanking manager; Cho Nih Sunn, Shakwan manager; Tsi Shao Chin, Tsinan manager; Yen Chin, Tung Hsien manager; Hun Per Hwa, Soochow manager.

Commercial Bank of China, general banking; head office, Shanghai; organized in 1897; capitalization taels 5,000,000 authorized and taels 500,000 paid up; branches in Hongkew and Nantao (districts of Shanghai); agency in Ningpo; Officers and directors—Sheng En Yih, Shao Tze Yue, Chow Tseng-tsung, Sheng Yok Shang, Chu Pao San, Sheng Bing Zung, Zee Kwan Nan, Yen Yue San and Fu Siao En, directors; Fu Siao En, manager director; H. C. Marshall, chief manager;

Hwei Hai Industrial Bank, general banking; head office in Nantungchow; organized in 1920; capitalization, $1,250,000; branches in Shanghai, Soochow, Yangchow, Haimun, Chinkiang and Tungzar; officers and directors—Chang Tui-an, chairman of the board; Chang Sih-an, Chang Kuan-pu, Wu Chi-ten, Zi Chin-jen, Ma Fu yu, Chang Cho-san and Wang Yi-ching, directors; Chang Chien, Jr., manager; Yung Jui-sung, Shanghai manager.

Industrial Development Bank of China; general banking; head office in Peking; organized in 1920; capitalization, $2,391,175; branches in Shanghai, Tientsin and Ningpo; officers and directors—Pan Fu, chairman of the board; Yu Ho-teh, Sung hua-yung, Yung-tsun chin, Chin Yun-ping; directors; Chang Shao-yung, manager; Shih yun-chien, Shanghai manager.

Kincheng Banking Corporation, head office in Tientsin, organized in 1917; capitalization, $5,000,000 all paid up, and $600,000; reserve fund, branches in Peking, Shanghai, Hankow, Nanking, Harbin, and Chengchow; agencies in all principal cities of China, in New York, London, Yokohama, Berlin, Paris, and Hongkong; officers and directors—T. M. Chow President; H. C Sun, Peking office manager; S. I. Yeh, Tientsin office manager; S. Y. Tien, Shanghai office manager; E. L. Whang, Hankow office manager; S. P. Hsu, Nanking office manager; T. T. Hung, Harbin office manager; S. T. King, Chengchow office manager.

National Commercial Bank, Ltd., general banking; head office, Shanghai; organized in 1907; capitalization, $2,500,000 paid up, and $750,000 reserve funds; branches in Hangchow, Hankow, Tientsin, Peking, Harbin and Mukden; domestic agencies and correspondents in thirty-five cities situated in sixteen provinces of China and foreign correspondents in London, New York, San Francisco, Paris, Berlin, Hamburg, Zurich, Tokio, Yokohama, Osaka, Kobe and Hongkong; officers and directors - K. C. Yeh, Chairman of board; Y. T. Tsiang L. S. Yan S. T. Chen and H. S. Sheng, directors; K. C. Yeh, general manager; Singloh Hsu, assist. general manager; Shu Chin Mih, assistant general manager.

National Industrial Bank of China, general banking; head office, Tientsin; organized in 1919; capitalization, $2,498,300; branches in Peking, Shanghai, Tsinan and Hankow; officers and directors – Hsiung Hsi-ling and Chien Nan-hsiun, Chairmen of board; Wang Kuh-min, Yen Tung-yuen, Yung Shou-tun, Chu Pao-jen and Tsao Nie-ling, directors; Chow Hsiao-hsih, general manager; Liu Tieh-Chi, Shanghai manager.

Ningpo Commercial Bank; general banking; head office in Shanghai; organized in 1908; capitalization, taels 1,500,000 authorized, and taels 750,000 paid up; branches in Ningpo, Hankow and Wenchow; officers and directors—Chu Pao-shan, chairman of

board; Shen Shen-chuan, Chow chin-chen, Li Yong-sien, Li Chi-sun, Yen Yu-shan, and Sun Hung-fu, directors; Sun Hung-fu, general manager; Zee Zong-ling, manager.

Shanghai Commercial and Savings Bank, general banking; head office in Shanghai; organized in 1915; capitalization, $2,500,000; branches in Hongkew (a district in Shanghai), Soochow, Wusih Changchow, Chinkiang, Nanking, Linhwaikwan, Pengpu, Chefoo, Tientsin, Tsinanfu, Nantungchow and Hankow; correspondents in all important cities of China; officers and directors—K. P. Cheng, general mgr., Chuan Teh Tse, Li Ming, Chang Chien, Chang Cha, T. K. Yung, Chu Pau Fay 朱子文, Woo Shao Tseng, H. H. Kung, S. S. Liu, K. Z. Hsu, Yang Shou Dong, George Kwok Bew, L. F. Chuan, Kwan Tse Ching, Wong Chee, T. P. Yang, K. P. Chen 陳光甫, directors.

Sinhua Savings Bank, savings and general banking, head office in Peking; organized 1914; capitalization, $1,500,000; branch in Tientsin; officers and directors——Z. Y. Fang, 方仁元 Managing Director, K. H. Ling, Shanghai Manager.

Tung Lai Bank, general banking; head office, Tsingtao; organized in 1918; capitalization, $200,000, and $287,000 reserve fund; branches Shanghai, Tientsin, Tsinan and Dairen; officers and directors——Chen Lan-pu, managing director, Lu Yueh-dung, manager, Wu Wei-yu, Shanghai manager.

Yien Yieh Commercial Bank, general commercial banking, head office in Peking; organized in 1915 capitalization, $10,000,000; officers and directors——Chang Hsin An, director, and Wu Ta Chuen, President.

Yung Hung Banking Corporation, general commercial banking; head office, Shanghai; organized, 1919; capitalization, $500,000; officers and directors—Saotseng Sze, Uuyuen Hsu, Ko Hong-nyien, Kwan Tse-ching, Lee Chu-san, Tsu Yin-kiang, Zao Tse-yu, Tsang Hong-ching, Dao Lai-chien, Lu Kien-chien, directors; Zee Paochi, manager;

Tung Lu Bank, general banking; head office in Peking; organized in 1919; capitalization, $1,000,000; branches in Shanghai and Peking; officers and directors——Wu Dah-chuen, and Liu Yu-shan, managing directors; Chang Tai-ping, Wu Chi-yuen, Li Shiao-chung, Sung Chi-fu, Chu Yu-sung and Ching Shao-he, directors; Fang Shu-peh, Shanghai manager.

Young Brothers Banking Corporation, general banking; head office in Chungking, Szechuan; organized in 1913; capitalization, $1,000,000; branches in Chengtu, Wanhsien, Ichang, Shanghai, Hankow, Tientsin and Peking; agencies and correspondents in Chinese commercial centers and abroad; officers and directors—Yang Pei-lin, chairman of board; Yang Pei-ren, Yang Pei-fang, Yang Pei Kuang, Yang Pei-shang Yang Pei-wen, Yang Pei-chang, and Yang Sih-koo, directors; Yang Pei-hsien, general manager and Y. F. Chow, Shanghai manager.

Union Bank of China, Ltd., general banking; head office, Hongkong; organized in 1922; capitalization, (Hongkong currency) $1,000,000; branch, Shanghai; officers and directors;—T. V. Soong and W. L. Wei, managing directors; T. H. Sydney Ng, general manager; E. Y. Edward Sheng, J. H. Lee, Chow Shon Woon, and S. D. Wang, directors.

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25-313

Industries under Management

and Direction of

H. Y. MOH

The Chinese Industrial Bank

Capital: $1,000,000

Offices: P. 60 Nanking Road

The Chinese Cotton Goods Exchange

Capital: $3,000,000

Offices: Avenue Edward VII.

TEH DAH COTTON MILL

Capital: Tls. 1,500,000

Mill: 78 Ward Road

Town Office: 1 Tsing Yuen Li, Peking Road

Products:

10s yarn....."Double Happiness"
16s ,, ..."Pagoda"
20s ,, ..."Pagoda"
32s thread....."Civilized Beauty"
42s ,, ..."Civilized Beauty"

HOU SUNG COTTON MILL

Capital: Tls. 2,400,000

Mill: 22 Seoul Road

Town Office: 137 A San Wo Li, Kiangse Road

Products:

10s yarn....."Double Happiness"
16s ,, ..."Pagoda"
20s ,, ..."Pagoda"
32s ,, ..."Double Happiness"
42s thread....."Double Happiness"
11-lb. ng ..."Three Tigers"
13-lb. ,, ..."Aeroplane"
12-lb. drills ..."Three Riches"
12-lb. jeans ..."Double Happiness"

YU FOONG COTTON MILL

Capital: Tls. 3,000,000

Mill: Chengchow, Honan

Town Office: 137 A San Wo Li, Kiangse Road

Products:

10s yarn....."Double Happiness"
,, ,, ..."Aeroplane"
12s ,, ..."Pagoda"
14s ,, ..."Pagoda"
16s ,, ..."Pagoda"
,, ,, ..."Aeroplane"
20s ,, ..."Pagoda"
,, ,, ..."Aeroplane"
12-lb. drills ..."Five Elders"
16-lb. sheeting ..."Heavenly Official"

BANK OF COMMUNICATIONS

(SPECIALLY AUTHORISED AND MADE A NATIONAL BANK
BY PRESIDENTIAL MANDATES OF APRIL 7TH, 1914 AND OCTOBER 31ST, 1915)

Capital: Dollars 20,000,000.00

President: Hon. Mr. CHANG CHIEN
Vice-President: Mr. CHIEN YUNG-MING

HEAD OFFICE: PEKING

Branches: Metropolis: Peking. Chihli Province: Pao Ting Fu, Shih Chia Chwang, Kalgan, Tang Shan, Tientsin. Shansi Province: Kuei Hua Chang. Shantung Province: Chefoo, Lunkow, Tsinanfu, Tsiningchow, Tsingtao. Anhwei Province: Anking, Hsuan Cheng, Wuhu, Peng Pu. Manchuria: Changchun, Kirin, Fengtien, Harbin, Sunchiatai, Yinkow. Honan Province: Keifeng. Chekiang Province: Hangchow. Hunan Province: Changsha. Hupeh Province: Hankow, Ichang. Kiangsu Province: Hsuchow, Soochow, Nantung, Nanking, Tsingkiangpu, Shanghai, Wusih, Yangchow, Chinkiang, Changshu, Hsiakuan. Kiangsi Province: Kiukiang. Abroad: Hongkong, Singapore, Tokyo. Foreign Correspondents: London, Paris, New York.

Every description of Banking and Exchange business transacted. Interest allowed on current accounts and fixed deposits according to arrangement. Credit granted on approved securities. Special facilities for transfers to all parts of China.

SHANGHAI BRANCH: 14 THE BUND

SHEN CHU HSU, Manager
T. D. WOO, Sub-Manager
S. T. HAUNG ,,

The Bank of China

(Specially authorized by Presidential Mandate of 15 April, 1915)

Authorized Capital	**$60,000,000.00**
Paid-up Capital.	**$19,760,100.00**
Reserved Fund.	**$ 6,033,345.41**

HEAD OFFICE: PEKING

SHANGHAI BRANCH: 22 THE BUND

Branches Throughout China

Cable Address: "CENTROBANK"

Foreign Correspondents:

LONDON	London Joint City & Midland Bank, Ltd. Lloyds Bank, Ltd.
PARIS	Banque Nationale de Credit.
BERLIN	Deutsche Bank.
NEW YORK	Irving Bank—Columbia Trust Co. Chase National Bank. Equitable Trust Co. of New York. Guaranty Trust Co. of New York.
SAN FRANCISCO	Wells Fargo Nevada National Bank. Crocker National Bank. Anglo & London Paris National Bank.
TOKYO	Dai Ichi Ginko, Ltd. One Hundredth Bank.
YOKOHAMA	International Banking Corporation.

In The United States Court for China

(Established by Act of Congress of June 30, 1906.)

Recent Decisions

Dec. 7 — Dec. 23, 1922

HENRY QUELCH, PLAINTIFF v. PAUL S. CRAWLEY, DEFENDANT.

(Continued from last week)

at bar. Defendant's possession of such goods as he received was with plaintiff's full consent and it was defendant himself who first suggested that the unsold goods be taken off his hands. In his letter of February 13, 1921 and again in his letter of March 2 defendant wrote "I suggest that your representative come here, settle up accounts and receive the stock." It does not appear that plaintiff acted on this suggestion until after six weeks; for his account (Ex. P) of expenses incurred in disposing of goods at Harbin commences with March 30. We do not think it was incumbent upon defendant, after giving such a notice to remain indefinitely in charge of the goods especially if, as he alleges, he was "compelled to proceed with his sick wife and children to his legal residence at Pattiway, California." But in his answer so alleging, prepared as he states by himself and filed on the same date, March 30, as the beginning of the account above mentioned, he not only denies the wrongful detention but avers that he "has never had objection to the plaintiff receiving all" goods. Nor does it conclusively appear that all of these were technically in defendant's possession. The largest item, *e.g.*, of 204 cases, shipped about October 30, 1920 had not reached defendant, according to evidence produced by plaintiff (Ex. G), so late as December 9. In one of his letters (Ex. 19) defendant asks that this consignment be placed in the godown of the International Bank "and you instruct them accordingly the entire details of this matter." Plaintiff's counsel quotes a letter from the Vice Consul at Harbin to the effect that the quantities found in certain warehouses there did not equal those called for by the warehouse receipts. But aside from the fact that such a letter is not competent evidence, it does not appear that these losses occurred while defendant was still in charge and before he gave notice of his desire to be relieved. Moreover these losses could only be covered by a judgment for the value of the unreturned portion concerning which, as we have seen, there is no competent evidence.

In the original judgment plaintiff was allowed an item of M. $1,841.84 for the expenses of two men sent to Harbin to receive and dispose of the goods. We considered that a proper item of recovery on the theory that plaintiff was the vendor and was chargeable with goods recovered only after the deduction of expenses. But on the theory that he is the owner, merely taking back his own goods which he had voluntarily sent to Harbin we cannot allow that item. There is no suggestion of an arrangement by which defendant should be charged with the expense of *returning unsold goods* to Shanghai and we need not stop to consider the reasonableness of the item for it does not fall within the scope of damages in replevin.[6]

On the other hand, we are unable to allow defendant's various claims to reimbursement "for duty, freight, cartage, insurance, advertising" etc. (except so far as they might be necessary to cancel some of plaintiff's claims) for the reason that defendant has filed no proper set-off or counter claim and if he had it could not have been allowed against plaintiff who was of another nationality, except by way of reducing plaintiff's pecuniary judgment[7] which we have decided not to render. We are satisfied that under the pleadings and upon the evidence now before us we are not justified in adjudicating more than plaintiff's title and right of possession to part of the goods in controversy.

The judgment heretofore rendered is modified accordingly and it is hereby considered and adjudged that plaintiff was at the time of commencing this action the owner and entitled to the possession of the goods described in his affidavit in replevin except the first, second and fourth items thereof which had been duly disposed of by defendant with plaintiff's consent; and that plaintiff was and is entitled to recover from defendant so much of said goods as were in defendant's possession at the time of issuing the writ. As the averment of wrongful detention has not been established there will be no allowance of costs.

6. Cyc. XXXIV, 1560.
7. King Ping Kee v. American Food Mfg. Co., I Extrater. Cases, 739.

MAO TUNG PRODUCTS CO., PLAINTIFF, v. CHINESE-AMERICAN PROVISION CORPORATION, DEFENDANT.

(Cause No. 1682; decided December 14, 1922.)

SYLLABUS

(By the Court)

1. **Corporation Guaranty:** A CORPORATE OFFICER has no implied authority to bind the corporation by the guaranty of a third party's debt.
2. ID.: ID.: Ratification of such an attempted guaranty is not sufficiently proved by a letter from the officer reciting that it has been confirmed, especially where the officer himself is called as a witness.
3. ID.: A MORTGAGE by a corporation which is paid off by another corporation without taking any evidence of indebtedness, is thereby extinguished and is not a valid claim in favor of the payor as against other bona fide creditors of the debtor.
4. ID.: **Insolvency:** RECEIVERS. Where a corporation is hopelessly insolvent preference will be given to certain indispensable claims and, as between general creditors, to those who are clearly bona fide as against those who had means of self protection.

Richard T. Evans, Esq. for plaintiff.

Theodore E. Simmang, Esq. for defendant and intervenor.

LOBINGIER, J.:

Defendant is an insolvent corporation for whom a receiver was appointed at plaintiff's instance. Among the many claims presented against defendant those of plaintiff and the intervenor were sought to be placed in judgment. But in view of the receivership no judgments will, of course, be rendered but we shall examine into the validity of the claims of these two parties and enter a judgment directing the application, upon as equitable a basis as possible, of defendant's limited assets.

On September 14, 1921 I. E. Shulman executed to the plaintiff corporation two promissory notes for amounts aggregating $6,167.86, appended to each instrument is the following notation:

> "Chinese American Provision Corp. Guaranteed by H. J. Zimmerman, President."

The petition alleges that the defendant company has thereby "for valid consideration guaranteed the payment of the above two sums." This averment is expressly denied in the answer which further avers that the "alleged instruments of guaranty ... are without the powers of the defendant corporation and therefore *ultra vires*." It is well settled that an officer of a corporation "cannot bind it by a contract of indemnity, guaranty, or suretyship, unless he is either expressly or impliedly authorized to do so."[1] Even where corporate by-law authorizes the general manager to bind the company by contract for merchandise, etc. he may not pledge it by a written guaranty of a third party's note.[2] So a corporate secretary, who signs himself manager, cannot bind the corporation by the guaranty of customer's rent.[3] The case[4] cited in argument by plaintiff's counsel was not one of guaranty but of a transportation contract

1. Corpus Juris 14A, 466. Sec. 2325. Cf. In re Amsdell-Kirchner Brewing Co., 240 Fed. 492.
2. Dobson v. Moore, 164 Ill. 110, 45 N. E., 243; 56 Am. St. Rep. 184, affirming 62 Ill. App. 435.
3. McBroom v. Cheboygan Brewing etc. Co. 162 Mich. 323, 127 N W 361.
4. Chio etc. Ry. Co. v. McCarthy, 96 U. S. 258, 24 L. ed. 693.

by a railway company which was of course in the line of its business and therefore not *ultra vires*. In the case at bar it is not claimed that defendant's president had any express authority to execute such a guaranty. The Articles of Incorporation give him no exclusive specific powers except those of "general supervision" etc. Even certificates of stock require the counter signature of the treasurer. Nor does the execution of such a guaranty form any feature of the avowed corporate purposes. Indeed, the entire capital stock is less than the debt for which this alleged guaranty was given.

It is claimed, however, that the guaranty was for the defendant corporation's benefit; but we find no evidence of this. It appears from the testimony that the guaranty was executed as part of a transaction by which the maker of the note purchased certain shares of stock in the defendant company held by Chinese who would not have accepted the maker's note without the guaranty. Such a sale might have benefited the purchaser and even the president of the defendant company who it seems desired to eliminate certain share holders; but that it benefited the corporation as a whole does not follow. Indeed the president testifies:

> "Q Why was that agreement given?
> A Because the Chinese shareholders did not know Mr. Shulman very well and our family has known him and I was doing it as a personal favor to Mr. Shulman."

Some six months after the execution of these instruments the president of the defendant company wrote to the maker of the notes as follows:

> "Mr. E. Shulman,
> Present
> Dear Sir:
>
> We, the Chinese-American Provision Corporation, hereby state that, due to the fact that we have guaranteed your promissory note for approximately $6,500.—to the former Chinese shareholders of our corporation, we see it to be our duty to pay off (*sic*) the above note to the best of our ability with terms and conditions as may be best suited to the parties interested.
>
> The above has been confirmed at the meeting held by the shareholders of the Chinese-American Provision Corporation on March 4th, 1922.
>
> Yours truly,
> Chinese American Provision Corp.
> H. J. Zimmerman,
> President" (Ex. F)

This is claimed as a ratification of the guaranties which validates them even though originally invalid. But this instrument carries no greater weight than the previous ones. It is merely a statement by the president that the guaranty has been confirmed; it is not in itself a confirmation. No resolution or other expression of the stockholders is produced and the letter itself is not even admissible in evidence for the author of it was present and testified as follows:

> "Q. This agreement that you signed, was that done in accordance or by virtue of a resolution of the board of directors?
> A. It was not. I do not remember if I had the minutes of the meetings."

No testimony of ratification was given.

Aside from the form of the instrument (which purports to be hardly more than a guaranty by the president himself), we are unable to find from any competent evidence in the record that the president of the defendant corporation had any express or implied authority to execute the guaranties in question and plaintiff is consequently not entitled to judgment thereon over defendant's objection.

II

Some two and one-half months after the filing of the complaint based on the claims just considered a pleading termed a "petition in intervention" was filed by the North China Cold Storage Company. No application for leave to file it seems to have been made and had it been made would necessarily have been denied for the petition relates in no way to "the subject matter of litigation," [5] which is the guaranty above discussed. The claim set forth in the "petition in intervention" is one for reimbursement for the payment of a mortgage by defendant to the Bank of Tientsin, and also for goods furnished and money loaned to and expended for defendant. As regards the mortgage in question it appears to have been paid off and discharged without the execution of any new evidences of indebtedness. In fact intervenor's accountant, who also became defendant's manager, testified that there was no written agreement regarding the mortgage because the relation between the intervenor and defendant made it unnecessary. Such payment as the intervenor claims to have made would extinguish [6] the indebtedness and it would seem that an entirely new obligation in favor of the intervenor was necessary in order to create anything other than a moral claim against defendant. At any rate we do not feel justified in allowing it in view of the receiver's report, just received, and for which we have been waiting in order to dispose of this case, showing cash on hand $6865.30 while there are preferred claims (wages, rent and municipal charges) amounting to $3710.98 and sundry small claims for supplies, advertising and labor amounting to $8096.74. We are of the opinion that the latter should be paid *pro rata* in preference to intervenor's claims for goods and money furnished. For the sundry claimants were innocent suppliers in good faith who made possible the continuation of defendant's business and who were without means of knowing its financial condition. Intervenor on the other hand was in close touch with defendant's affairs, there being apparently a common representative for both concerns. Whatever intervenor entrusted to defendant was with full knowledge and with the opportunity to protect itself which it appears to have done at least to the extent of securing two motor cars and certain fixtures previously belonging to defendant. Moreover, the intervenor, by having a common representative with defendant, was in a much better position than ordinary creditors to know that defendant's total capital stock was only $6000.00. If in spite of such knowledge intervenor chose to extend large credits to defendant the former must have decided to assume some risks.

It is accordingly considered and adjudged that plaintiff take nothing by his complaint but that the receiver proceed to distribute as follows the cash listed in his report of Dec. 6:

> (1) The claims listed under Group "A" (wages, rent, municipal charges, etc.) may be paid in full:
> (2) The balance of the cash now on hand may be distributed *pro rata* among the sundry creditors constituting Group "C," and
> (3) The Russian Club Debentures and any other assets which shall hereafter be collected may be turned over to the intervenor in discharge of its claims.

DUDLEY E. SWINEHART, PLAINTIFF, v. HARRIET H. SWINEHART, ET AL, DEFENDANTS.

(*Cause No. 1670 decided December 16, 1922.*)

SYLLABUS

(*By the Court*)

1. **Trusts:** HUSBAND AND WIFE The transfer of a savings bank account by a husband to his wife found to constitute a trust for her maintenance and not an absolute gift.
2. ID.: REVOCATION. There being no "express power of revocation" reserved at the time of its creation, such trust continues but only for its original purposes.
3. ID.: ATTACHMENT. Where the trust fund has been sequestered by the beneficiary and subsequently attached, it will be retained *in custodia legis* even after the attachment is dissolved.
4. ID.: CHANGE OF TRUSTEES. In such cases the court will appoint a new trustee.

Messrs. Williams, Franklin & Faison, by Mr. Faison, for plaintiff
Messrs. Schuhl & Schoenfeld, by Mr. Schuhl, for defendants.

LOBINGIER, J.:

The principal parties to this action are husband and wife, having been married on November 27, 1918. Some two years and a half later he wrote the following letter:

> "Abbeville, Georgia.
> July 13th, 1921.
>
> United States National Bank of San Diego,
> San Diego, California.
> Gentlemen:—
>
> As I expect to make a short trip to South America in the near future, please transfer my savings account to the account of Harriet E. Swinehart. Make it a Savings Deposit, but kindly allow her the same privileges as you have allowed me, as to drawing upon it. However, I don't think it will be necessary to draw upon it.

5. Extraterritorial Remedial Code, Sec. 57.

6. Cyc. XXVII 1397, Note 55.

Kindly notify Harriet E. Swinehart at 302 Empire Ave., Benton Harbor, Mich., of the change and write me here.

Although this closes out my account I will do my banking with you in the future. I appreciate your kindness and attention

Respectfully,
(Sgd.) D. E. Swinehart" (Ex. G).

The two having become estranged, the husband now sues for this deposit amounting to G. $4863.97 (Ex. 1) and the point in dispute is whether the transaction constituted an absolute gift of this amount to defendant as she claims or whether it was merely placed in trust for her as plaintiff contends.

Defendant says (pp. 70-71) that as a result of certain unfortunate investments and losses plaintiff decided to give her this money and that he never afterward claimed it as his until January, 1922 when he "demanded me to sit down and write for the money and turn it over to him", (p. 71). About the close of that month, however, she wrote to her brother-in-law, referring to the deposit, "the $4000.00 he has in the bank is in my name and he wants it" (Ex. Q). She also refers to herself as "an object of charity" and requests a loan from the addressee. Plaintiff testifies (p. 27-30) that his wife and another defendant sought to borrow this amount, or part of it, from him which would be likewise inconsistent with the notion that they understood that the title to the deposit was exclusively in the wife. This testimony is corroborated by a letter (Ex.)) to plaintiff from defendant's mother urging plaintiff to permit the investment and indicating that defendant had informed her mother of the desire in the matter. But if plaintiff had decided, at the time he wrote the bank, to make an absolute gift of the money all of this effort would have been unnecessary. On the whole we are disposed to agree with plaintiff's counsel (p. 3) "that this money was simply deposited in her (defendant's) name in trust for the p··rposes stated"

> "While from such deposits the *prima facie* inference may be that a gift was intended by the husband to the wife, that inference may be rebutted and overcome by parol proof to the contrary, and a resulting trust arise in favor of the husband."[1]

I. e. it is a resulting (implied) trust where no explanatory statement accompanies the deposit. But here the letter directing the transfer effected, we think, an express trust for the wife's use and benefit. Plaintiff instructed the bank to "allow her the same privileges as you have allowed me, as to drawing upon it." He testifies (p. 26) "We arranged that she was to use some of it if necessary. * * If she had to use it she could." In other words, this was an express trust for maintenance, of which the husband was the setlor, the wife the beneficiary and the bank "a simple or dry trustee".[2] It was not merely a "deposit" for safe keeping as in a case[3] cited by plaintiff's counsel.

Of course, then, it was subject to the general rules applicable to trusts, one of which is stated as follows:

> "It is well settled that, in the absence of fraud, mistake, or undue influence, a trust completely created, and containing no express power of revocation, is not revocable by the creator without the consent of the beneficiary."[4]

This rule has already been applied by this court, and by the great weight of authority (seemingly everywhere except in New York) it is applicable[6] to what are termed "savings bank trusts" like this.

We do not find either in the testimony or in the correspondence in relation to the creation of this particular trust any "express power of revocation." In plaintiff's letter (Ex. G) to the bank he states that this transfer "closes out my account." It was not a temporary one with directions for retransfer upon his return from South America or in case he should not go there. He did not make that trip, but instead came to China and when asked why he did not take steps to retransfer he replied (p. 26) "I thought it was safe with her. I trusted her." In other words he had no intention of revoking the trust for a long time after it was created and evidently never thought of providing in advance expressly for its revocation.

On the other hand we think it clear from the evidence that the trust was intended for the wife's personal support. The fund was not set aside for purposes of speculation or investment; otherwise she would not have asked plaintiff's permission to use it for such a purpose nor have sought a loan elsewhere. She was entitled to and did use part of it for maintenance which was strictly within the purposes of the trust as construed by plaintiff himself. In withdrawing it from the trustee (bank), defendant has made it necessary for this court to find another for it is a well known maxim "that a court of equity never want (for) a trustee."[7] In such cases

> "courts of equity will take upon themselves the due execution of the trust, and if necessary will appoint other trustees to carry the trust into effect."[8]

And in using, or attempting to use, a large portion of the trust funds to form a speculative corporation, defendant was going outside the purposes of the trust and contrary, as she knew, to the wishes of her husband. Nor do we think the corporation or its stockholders can be treated as innocent purchasers for value. There were but three of them and the wife was one. There is evidence (p. 26-27) that her co-defendant was likewise aware of the trust purposes. Their knowledge in such a case was necessarily the corporation's knowledge.

The greater part of the trust fund was subjected to attachment at plaintiff's instance and is now *in custodia legis*. But the attachment was obtained upon the averment

> "that the defendants with the intent to defraud their creditors are about to remove a substantial part of their property without the jurisdiction of this Court."

No attempt has ever been made to support this averment in the evidence and we have consequently no alternative but to dissolve the attachment. The request submitted by plaintiff for special findings is believed to be substantially covered in the foregoing.

It is accordingly considered and adjudged that the fund in controversy is a trust fund for defendant's maintenance, that the attachment levied herein be dissolved but that the attached fund remain *in custodia legis* until a suitable trustee be found and meanwhile that any income therefrom, as well as any portion heretofore used for other purposes than defendant's maintenance, be applied from time to time in reduction of the amount due her under this Court's order of August 30, 1922. There well be no award of costs to either party.

IN H. B. M. SUPREME COURT FOR CHINA

SHANGHAI MUNICIPAL COUNCIL, PLAINTIFF vs. ATKINSON & DALLAS, LTD., DEFENDANT.

(97. c. 1922, decided December 23)

SYLLABUS

(*By the Editor*)

1. LAW. A BRITISH COURT may apply local law.
2. ID.: A MUNICIPAL CUSTOM to assess land for taxation only quinquennially, upheld.

Duncan McNeill, Esq., for plaintiff.
R. N. Macleod, Esq., for defendant.

GRAIN, J.:

The Council claims the sum of Tls. 6,588.75 being the land tax due from the defendants as owners of Lot 1037, for the periods of half years, ending June 30, 1921, December 31, 1921 and June 30, 1922 and further the sum of Tls. 2,578.63 being the land tax due from the defendants as owners of lot 1039, for the period of half years ending June 30, 1921 and December 31, 1921.

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1. Monahan v. Monahan, 77 Vt., 133. 59 Atl 179, citing Wallace v. Bowen, 28 Vt., 638; Bent v. Bent, 44 Vt., 555. See also.
   Conn. Way v. Peck, 47 Conn., 23.
   Iowa. In re Brown's Estate, 113 Iowa, 351, 85 N. W. 617.
   Maine. Lane v. Lane, 76 Me., 521.
   Mass. Fisk v. Cushman, 6 Cush., 20; 52 Am. Dec. 761.
   N. J. Fretz v. Roth, (N. J. Ch.) 59 Atl., 676.
   N. Y. Stamp v. Franklin, 144 N. Y., 607, 39 N. E. 634; Countryman v. Countryman, 28 N. Y. S., 258. Cf. In re Holmes. 79 N. Y. S., 529 cited by defendant.
2. "In such case the *cestui que trust* is entitled to the actual possession and enjoyment of the property, and to dispose of it, or to call upon the trustee to execute such conveyances of the legal estate as he directs. In short, the *cestui que trust* has an absolute control over the beneficial interest, together with a right to call for the legal title, and the person in whom the legal title vests is a *simple* or *dry trustee*." Perry, Trusts (5th ed.) II, sec. 520.
3. Parvin v. Capewell, 45 Pa. St. 89.
4. Cyc. XXXIX, 92.
5. Ullrych v. Asia Banking Corporation, II Extrater. 131, 134.
6. Cyc. XXXIX, 68, Note 79.
7. Story's Equity Jurisprudence (11th ed.) II, 1932. Cf. Perry, Trusts, Sec. 38.
8. Cyc. XXXIX, 282, 283.

The defendants admit that the land was regularly assessed at the time the assessment was made in 1920, but maintain that since the partition of the plot originally assessed by the purchase by themselves of a part of the original plot, the assessed value of their portion of the land has altered; namely, that value for assessment has been reduced by reason of the partition, and that the land as now divided and now under their ownership has not been assessed and therefore they are not liable to pay the sums due on the original assessment. The facts are as follows:

At the time the land was assessed it belonged to the Shanghai Hongkew Wharf Company and was registered in their name as parts of lots 10,195 and 10,200 and was part of a large plot of land with a considerable frontage on to the Whangpoo River. Since the assessment on April 7,1920, the plot of land has been divided into three parts, the Shanghai & Hongkew Wharf Co., having retained possession of rather more than half of the land, which has a frontage on the river, while they have disposed of two plots (now styled lots 1037 and 1039) having no river frontage, at the back of the river-fronted lands, which are debarred from river frontage by the land remaining in possession of the Shanghai & Hongkew Wharf Co.

The defendants maintain that the plot of land ought to be re-assessed, and that the part of the land now possessed by themselves should be assessed at a lower figure than formerly because the value of the land has been reduced by the division of the plot in consequence of the loss of the river frontage. The plaintiff maintains that the original assessment stands and is recoverable until such period as a new assessment is made in accordance with the rules and customs of the Council.

The principle of assessment in the Shanghai Concession is as follows: Assessors who are not members of the Council, but independent individuals, are appointed at certain periods to assess the land under the Council in the Settlement. The assessment arrived at by these Assessors is finally brought before a ratepayers' meeting for that meeting to adopt or not as they see fit. In the event of the assessment being approved by the resolution of the ratepayers it remains in force until the next assessment is decided upon by resolution of the ratepayers and in due course approved and passed by them. The power to levy the rate is given by Article IX of the Land Regulations.

In the present case Mr. S. J. Halse and Mr. N. L. Sparke were appointed to assess the lands in the Settlement, in accordance with a resolution of ratepayers on April 7, 1920. The assessment of these gentlemen was in due course passed by a resolution of ratepayers and by such a resolution, on April 14, 1921, was duly levied from January 1, 1921, at the rate of 7/10ths of 1 per cent. on assessed value of land; a similar resolution being passed on January 1, 1922. The assessed value duly passed by the ratepayers of these plots of land is Tls. 25,000 per mow.

The new title deeds of the portion of land sold by the Shanghai & Hongkew Wharf Company to the defendants were issued in December, 1920. There appears to be no definite period at which assessments take place, the practice being to retain an assessment until some general alterations in values of property has taken, or is about to take, place.

The general principle, which I have already described, on which land is assessed and rates levied, has been discussed in this Court on certainly three occasions.[1] In the first case Sir Frederick Bourne was the Judge and in the other two cases Sir Havilland de Sausmarez. On each occasion the principles of assessment and the levying of the rates were approved and upheld by the Court. In the second case Sir Havilland de Sausmarez stated:

> "Unless there is legislation that is binding on all, custom which is acceptable by all is our safest guide, for it is almost sure to be reasonable and it is unlikely to be repugnant to the law of any of the nations which form our Community. Evidence satisfied the Court in the case cited[2] that the principle was such as it could accept. Since then another assessment has been made and the same principle adopted. I think it would be most unfortunate that it should be shaken."

Since that judgment was given another assessment has been made upon the same principle. There is no doubt that a British Court has power to take cognizance of and apply local laws. And it matters not, as [illegible]cey states.[3]

> "Whether these laws are written or unwritten, whether they are the direct result of legislation whether they exist as custom or are created by judicial decisions."

In the third case[4] Sir Havilland de Sausmarez also approved of the principle of assessment adopted by the Council, stated that it was binding on British Subjects and decided against the Municipal Council because they had departed from the established rule, saying:

> "How the Council came to recommend that the Ratepayers should make a departure from a sound rule it is difficult to see."

Therefore we have the principle of assessment of land values, and the procedure in connection with the assessment, not only established as a local custom but also confirmed by judicial decisions.

I am of the same opinion as Sir Havilland de Sausmarez. I think that it would be most unfortunate if this established custom which has by now become a rule of law, should be shaken. It may be that the defendant's land as now situated is of less ratable value and it may be that at the next assessment the assessors will reduce the ratable value of this particular plot of land; from which follows that which the defendants consider an unfair burden thrust upon them, namely, the payment of an excessive rate, without remedy until such time as the ratepayers shall decree another assessment. But I cannot dismiss from my mind that at the time the defendants made their purchase they knew or could have ascertained the ratable value of the land they were purchasing and that it was then within their power, before completing the purchase, to make terms for a proportional payment of rates with the Shanghai Hongkew Wharf Company which were continuing to hold that part of the land which had a river frontage. I cannot agree with the argument of the defendants that their land has not been assessed. I am of opinion that it was properly and lawfully assessed in 1920, and that by that assessment, whatever may have happened since, they must abide until the next assessment takes place. Therefore I find for the plaintiff for the amount claimed.

I should like to add a suggestion to the Council with regard to appeals against assessments. The tendency appears to be that assessment should be every five years. This term of years is in accordance with the assessment of the metropolis of London which is also quinquennial. But under the assessment laws governing the metropolis, ratepayers have an opportunity of appealing against assessment not only at the time of the assessment but also each year after until the next assessment takes place. But the procedure there adopted for appeals would be impossible here. It may be possible for the Council to adopt some form of procedure to give opportunity for appeal should occasion arise each year after the assessment. It might possibly be done by the appointment of a Financial Committee each year to consider appeals with regard to rateable values. It would be necessary, of course, by some procedure, to guard against frivolous appeals. Should the appeal be allowed, the reduced payment of assessment would not come into operation until the next financial year and so would not interfere with the budget of the year in which the appeal took place.

This is merely a suggestion, and it may be impossible to carry out in consequence of facts which are not before me. I make the suggestion because it appears to me that there may be cases where, in the course of the five years before the next assessment, some hardship may arise by reason of the reduction of the value of land, against which the ratepayer has no remedy until the next assessment takes place.

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1. Shanghai Municipal Council *v.* Tam Wa; Shanghai Municipal Council *v.* Shanghai & Hongkew Wharf Company; Shanghai Municipal Council *v.* Hardoon
2. Shanghai Municipal Council *v.* Tam Wa.
3. The Conflict of Laws. Cf. Secretary of State *v.* Charlesworth et al., 1 Extrater 66 (*Ed.*)
4. Shanghai Municipal Council *v.* Hardoon